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TANZANIA'S TRADE WITH PTA COUNTRIES: A SPECIAL EMPHASIS ON NON-TRADITIONAL PRODUCTS

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Tanzania's trade with PTA countries: A special emphasis on non-traditional products

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Abstract

This study investigates Tanzania's trade with other Preferential Trading Area (PTA) countries to observe how the formation of PTA and other trade incentives have affected trade. The results indicate a huge increase of trade in non-traditional goods. Although intra-country trade has increased, intra-industry trade between Tanzania and Kenya (which is analysed in detail) has not increased. Kenya exports more to Tanzania than Tanzania exports to Kenya, which suggests the need for internal adjustment in the production of manufactured products in Tanzania in order for the country to benefit more from the PTA arrangement. Policy considerations in the study suggest urgent improvements in infrastructure and other instruments to encourage increased trade within PTA region.

I Introduction

Trade expansion among developing countries, as a means of fostering economic development, has gained in importance amongst both economists and policy makers [Barnouin (1982), Robson (1985), Yeats (1988), among others]. While the encouragement of increasing regional integration was evident during the 1960s and the 1970s, there was a renewed vigour in the early 1980s which has continued into the 1990s. The new impetus towards increased global South-South cooperation is driven by a dissatisfaction by developing countries with trade among other areas. The dissatisfaction includes the slowdown in North-South trade as a result of the reduced rate of economic growth in the industrial countries and, unequal trade relations, including disappointment amongst developing countries with the results of the North-South dialogue.

In their trade with developed countries, many developing countries have exported primary commodities and imported manufactured commodities. There is a view that the terms of trade that face developing countries in trading with developed countries have been unfavourable, especially with the penetration of their manufactured exports into developed countries' markets hampered by protectionism. Africa, immediately after independence, many leaders (for example Nkrumah and Nyerere), saw integration as the effective way to eradicate poverty and effect rapid economic growth. They envisaged a united front to deal with the African continent's problems. Although African integration and unity did not become a reality, the failure of many African countries' manufactured exports to penetrate effectively with the markets of the developed countries and the recognition of their relative weak position in international trade negotiations, have stimulated African countries to reinvigorate South-South trading links and cooperation.

In trade literature, expanding trade is acknowledged as one of the ways of promoting economic growth via the foreign trade multipliers[1]. Promotion of trade is especially crucial for countries that have pursued inward looking policies and discouraged exports, yet have maintained a high degree of economic openness. Increased trade between developing countries is thought to be beneficial because of the opportunity to learn by doing, the shared technological requirements of the South, and the advantages of the appropriate technology supposedly embodied capital goods produced in developing countries (Frank, 1978, pp 20-23). The Brandt Commission, (1981) defined the purpose of economic cooperation among developing countries as forging "links among the countries of the Third World for more fully exploiting their collective bargaining capability in international economic relations." Maizel (1968, p. 22) points out that trade between primary producing developing countries could be more vigorously expanded to be commensurate with their population and national incomes. He suggests that there is scope for a good deal more trade in food, as well as in semi-processed and manufactured goods. This would help to expand the size of market that would make new manufacturing sectors economically viable. South-South trade is also encouraged because of cultural and historical ties.

In the above perspective, growth of regional trade is seen as one of the most important remedies to the trade constraints facing African countries. The Organisation of African Unity (OAU) and the Economic Commission for Africa (ECA) has actively encouraged formation of regional bodies like ECOWAS, PTA, and SADCC to "pave the way for the eventual establishment of an African common market leading to an African Economic Community" (OAU, 1981). The Arusha Programme for Collective Self Reliance, among other forums, proposed an increasing South-South trade on the premise that developing countries would negotiate trade preferences among themselves that would be based on the principle of mutual advantages in such a way as to benefit equitably all participants, taking into account their respective levels of economic and industrial development, the pattern of their external trade and their trade policies and systems (Yeats, et al, 1988). Tanzania has similar views and, in fact, in the past has championed South-South trade and co-operation. Tanzania's external policy has generally favoured regional integration. Tanzania, Kenya and Uganda were members of the East African Community, which collapsed in 1977.

Because of this importance of regional cooperation and trade for developing countries, this study was conducted to gain an insight into Tanzania's trade with Preferential Trade Area (PTA) countries. There is a dearth of profound studies on trade within the PTA region. Many researchers tend to dismiss this trade because it is regarded as "small" and unimportant, and they discount the prospects for its expansion.[2] This view tends to give the relevant governments distorted signals as to the importance of this trade and its feasibility. This study is an effort to fill the gap in this area, and offer a different and perhaps novel view.

II Objective of the study

The broad objective of the study is to observe and analyse one aspect of regional trading, namely the PTA of East Central and Southern Africa and Tanzania's trade with this region. Special emphasis is placed on non-traditional products, here regarded as all products other than the major exports which includes cotton, coffee, sisal, cloves, cashew nuts on the export side and on imports we take most of the products.

Specifically the study:

- Examines the trend of Tanzania's trade with PTA countries, including the type of commodities traded;
- Observes the general benefits of trade between Tanzania and other PTA countries;
- Takes a case study of some exporters in Tanzania trading in PTA markets to analyse the changes in the volume and trade patterns after the formation of PTA; and
- Examines and analyses the trade between Tanzania and Kenya to pinpoint the dynamic benefits of this trade.

III Theoretical synopsis of a PTA as it relates to developing countries

According to El-Agraa (1988), in reality, almost all existing schemes of economic integration were either proposed or formed for political reasons, even though the arguments popularly put forward in their favour were expressed in terms of economic gains.

A Preferential Trading Area PTA involves the elimination or reduction of import duties on all goods (except the service of capital) and other non-tariff barriers to trade among member states, while retaining those barriers with the rest of the world.

The effects of forming a PTA are both static and dynamic. Static effects include *trade creation* and *trade diversion*. Trade creation effects will occur if the reduction or elimination of trade barriers causes the replacement of inefficient domestic industries in one member country by a relatively more efficient industry of another member country. Trade diversion occurs when imports of a more efficiently producing country are replaced by a less efficiently producing country because of the reduction or elimination of trade barriers among member countries (Chacholiades, 1978).

Dynamic effects (more important for developing countries) include: increased competition and enhanced efficiency in production, made possible by increased specialization in accordance with the law of comparative advantage; as tariffs and other impediments to trade are removed and the market expands, the number of potential competitors increase, monopolistic and oligopolistic market structures are exposed to outside pressures, and inefficient firms are therefore forced to become efficient. These results can lead to research and development, in turn enhancing economic growth. If there is a reduction of production and marketing constraints this will result in expanded total exports that will exert important linkage effects to other sectors of the economy. The establishment of contacts could stimulate other cooperative ventures in areas such as finance, insurance and transport, and the resulting rapid industrialization will be based on more efficient utilization of resources (Mikesell, 1964).

The increased competition leads to an increase in total exports, including non-traditional ones, therefore broadening the export base. If the regional market creates trade in products not previously sold abroad, members may be able to broaden their export base with respect to both regional and extra-regional trades. Hence the long-run impact of a regional trading arrangement is not to decrease trade with the rest of the world but rather to change its pattern and possibly enlarge it. In this sense, therefore, there is no overall trade diversion, only trade creation (Mikesell, 1964).

Economies of scale and investment.

The establishment of the PTA provides an important opportunity for producers to enjoy economies of scale. This is especially significant for those producers of eligible commodities who, due to their exposure to a much bigger market, can raise the level of capacity utilization of their enterprises and compete more effectively in international markets outside the PTA. The creation of a large market leads to a greater degree of specialization, resulting in a reduction in costs. The reduction in costs is also caused by learning by doing and the development of a pool of skilled labour and management (Balassa *et al*, 1975, pp. 40-48).

The implied increase in competition and technical change leads to increased investment that is necessary to take advantage of the newly created opportunities. Increased foreign and domestic investment is therefore to be expected. The broadening unrestrained activity by competitive enterprises creates opportunities for innovation and force changes in investment patterns that constitute the dynamic elements of growth (Havrylyshn et al, 1981). The PTA may also facilitate the establishment of some large-scale heavy industries, such as steel and iron, which are essential if the region is to break out of its dependence on external sources for its capital goods requirements. Some of the PTA member states have deposits of the required mineral resources to start such industries, but small domestic markets have hitherto made them non-viable. So there is the influence on the location of industries and the volume of real investment. PTA is also important for local and foreign entrepreneurial decisions, including the long-run expected changes in the patterns and methods of production.

Other effects of the PTA include polarization and spread effects: when the participants are at different stages of development, polarization (backwash) effects and spread (trickle down) effects can also be expected. Polarization is the process by which, after formation of the PTA, economic activity (industrialization, increase in incomes, and growth of employment) concentrates in one country or region. The spread effect is the opposing process, by which economic activity spreads from the relatively advanced areas to the relatively poorer areas.

The PTA can also be used to achieve balance of payments' equilibrium, mobilising unemployed resources and avoiding economic dualism. The major impact of a PTA will occur as a result of the effects on entrepreneurial decisions arising out of the new market structure and the continual generation of new products, new processes and new methods of distribution within the broad regional market.

An improved international bargaining position made possible by the larger size leads to better terms of trade. If countries are too small to have any significant influence in international trade, the formation of a PTA will help these countries to exert a stronger influence than each acting alone. PTA can also help to reduce smuggling by legalising border trade.

For newcomers in trade, the PTA region also offers good opportunities for increased trade since individuals have closer background and cultural ties than in developed countries, where a new trader is more bound to be bamboozled in trade negotiations.

Limitations to the potential benefits of PTA

Potential limitations to the PTA include, among others, the problem of distribution of gains, whether static or dynamic. This problem was evident in the former East African Community with Tanzania and Uganda feeling that they were cheated by the more industrialised Kenya, and they also felt that Nairobi was becoming a "growth pole" while Tanzania and Uganda were becoming "backwaters".

Another area of risk with the PTA relates to political problems, particularly the issue of national as opposed to regional interests. Many countries, especially in Africa, have been shown to be very segmented and there is persistent conflict between self interest, national interest, regional interest and the continent's interest. Political tensions and disagreements become even more accentuated when the countries are tied together in economic arrangements (Whalley, 1987). Another issue related to this is "integration pressure". Many countries, especially small ones, feel obliged to join regional arrangements even when they feel they cannot gain from it. This is because, in many cases, these groupings are formed with a lot of political connotations and abstaining may be regarded by others as unpatriotic to the "African cause". This becomes a problem because many of these countries who join reluctantly may not be ready to ensure the success of these groupings.

The PTA reduces or eliminates import duties amongst participating countries. However, import duties are a significant source of revenue to many of the developing countries. If actual or potential trade within the region is large the governments will forfeit a large part of revenue and this will make them reluctant to join in the Preferential Trading Area.

The degree of competition and indeed the effectiveness of the PTA as a whole is also likely to be considerably hampered in the shortrun by any insufficient transport and communication infrastructure. This is relevant in road, rail, air, river and other links between member states.

Another limitation is related to trade competitiveness arising from the lack of technological capabilitities and other supply side deficiencies such as poor levels of skills, infrastructure, lack of managers and engineers, etc. (Lall 1992).

IV Tanzania's trade with PTA countries

Background to PTA

In 1978 protracted discussions began in Lusaka about the way to achieve regional economic cooperation among developing countries. The solution was to setup Preferential Trade Areas for Eastern, Southern and Central Africa with a headquarters for the treaty in Lusaka, Zambia. The operational phase of the PTA became effective on 1 July, 1984. Tanzania joined as a member in July 1985. The PTA involves about 18 countries, as well as others with others who have joined more recently (for example Mozambique in 1988). The PTA has a clearing house and offers travellers' cheques within the PTA sub-region. It also includes an association of commercial banks formed in Arusha in November 1988 (Bank of Tanzania 1989).

The PTA is primarily trade-oriented. The objective is to raise the standard of living of the citizens of the member states and to harmonise economic, political and social relations among member states. This is to be achieved through cooperation in trade, customs, industry, transport and communications, agriculture, natural resources and monetary affairs. The goals include the reduction and eventual elimination of intra-group tariff and non-tariff barriers. Preferences are agreed through mutual concessions by two or more members that are then generalised through a Most Favoured Nation (MFN)-type clause.

This study focuses on the trade of PTA one member state Tanzania, with the rest of the PTA member states. It is therefore important to observe the pattern of trade that existed before the formation of this grouping (pre-PTA) and the one that emerged after the creation of the PTA (post-PTA).

In 1980 Tanzania's domestic exports to PTA countries was about US$ 33 million. This dropped consistently and by 1985 the value of these exports was about US$ 10 million. A combination of Tanzania joining the PTA in 1985 other policies, including devaluation of the shilling to a large figure in 1986, and retention schemes meant that exports increased. The 1989 export figure to the region is approaching the 1980 level, that is over US$ 31 million. On the import side, imports from PTA areas have increased with only a slight decrease in 1984 and again in 1987 and 1989. The largest figure is about US$ 56.84 million in 1988, that is more than three times the 1980 level.

Table 1: Tanzania: Trade with PTA Member States (US$ million)

Year	Direct exports to PTA Countries	Direct imports from PTA Countries	Exports to PTA as a Share of Total Exports	Imports from PTA as a Share of Total Imports	Ratio of imports to Exports %
1980	33.05	14.72	6.50	1.17	0.45
1981	28.86	18.00	4.70	1.47	0.62
1982	14.44	34.16	3.20	2.54	2.37
1983	12.39	36.45	3.20	4.47	2.94
1984	13.87	35.10	4.00	4.23	2.53
1985	9.79	39.44	3.90	4.26	4.02
1986	14.07	55.08	4.83	5.12	3.91
1987	16.73	48.14	5.70	4.34	2.91
1988	25.46	57.78	7.20	5.05	2.29
1989	31.03	40.70	10.7	4.64	1.31

Source: Bank of Tanzania, *Economic and Operations Report,* 1991 and World Tables 1991 for the conversion factor.

Table 1 also shows the trade with PTA states as a share of Tanzania's total foreign trade. This leads us to several important points. First, in 1985 exports to PTA countries was about 3.9% of total exports, while in 1989 this portion grew to 10.7% of total exports. In 1985 imports from PTA countries was 6.7% of total imports while in 1989 imports from PTA countries decreased to about 4.6% of total imports. These figures show that trade within PTA countries has grown in importance. Second, as exports have grown at a higher rate than imports, the PTA has become an important mechanism to assist in closing Tanzania's trade deficit. Third, as regards the import/export ratio, while it was quite low in 1980, about 0.45, indicating that Tanzania exported more than it imported, this ratio became high in 1985 at 4.02. The ratio declined to 1.31 in 1989. If this trend of decline continues we expect this to be conducive to cutting trade deficit.

Exports are also increasingly becoming more concentrated in category 6 and 7 (SITC classification) which we can call manufactured exports proper. (see Table 2)

Table 2: Tanzania: Domestic Trade by SITC category to PTA Countries, 1987-89 (US$ million)

Specification	0	1	2	3	4	5	6	7	8	9	Total
Exports											
1987	2.64	1.97	1.45	3.52	0.02	0.06	5.92	1.21	0.09	0.05	16.93
1988	3.27	1.0	5.42	2.06	0.02	0.03	11.47	2.09	0.09	0.02	25.47
1989	1.72	1.44	10.15	4.76	0.007	0.09	9.00	2.71	0.50	0.048	30.42
Imports											
1987	4.79	0.22	0.63	7.90	0.06	5.47	13.22	12.40	3.45	0	48.14
1988	5.20	0.12	0.68	6.71	0.06	7.14	16.26	17.32	4.29	0	57.78
1989	1.64	0.055	0.69	3.91	0.048	6.18	18.76	8.67	3.54	0.021	43.51

Note: 0 food stuffs and live animals, 1 beverages and tobacco, 2 crude materials except fuels, 3 mineral fuels, 4 animal and vegetable oils, 5 chemicals, 6 manufactured goods by material, 7 machinery, transport equipment, 8 miscellaneous manufactures and 9 other N.E.C.

Source: Tanzania Bureau of Statistics, Foreign Trade Statistics,1988 and 1989.

Table 2 shows Tanzania's exports to the PTA region for the years 1987, 1988 and 1989 to be concentrated in SITC category 6 (manufactured goods by material) taking about 33%, 45% and 30% respectively. If we include category 7 (machinery and transport equipment), and category 8 (miscellaneous manufactures), we find that this group comprised about 47%, 55% and 40% of total exports to the PTA respectively. The traditional exports occupied quite a low percentage. Within total exports however category 6, 7 and 8 comprised only 14.3%, 14.2% and 11.7% respectively. The concentration of the PTA exports in category 6, 7 and 8 signifies a tendency towards diversification, and perhaps that some new non-traditional exports are finding markets in the PTA region.

Imports from the PTA region were concentrated in category 6, 7 and 8 at about 60%. In 1988, imports from category 6, 7 and 8 occupied about 65.5%, while in 1989 it increased to 71.1%.

The above tendency might have several explanations, such as: (1) the re-export of imported goods (to enter by the lowest tariff); and (2) "formalization" of trade that was previously informal. However, even if formalization was partially responsible for the extra exports, this is still beneficial to the government of Tanzania.

Furthermore, the data indicates an increasing trend of non-traditional products going to PTA markets, especially up to 1988, (see Table 3). Products going to Burundi doubled during 1986 and 1988 from 14 to 28 products. Products going to Kenya, also increased tremendously from 74 in 1986 to 131 products in 1988. The same picture is repeated in other countries especially Uganda and Zimbabwe. There seems to be a decline in non-traditional exports to PTA countries in 1988 and 1989 for all of Tanzania's PTA partners. The reason for this is not apparent, although it can partially be explained by the fact that data for the year may not be complete.

Many new non-traditional products have been penetrating the PTA markets, which could be a result of many individual exporters finding that the PTA market is accessible and profitable. Overall then, and if we take into account trade alone and not production one can "loosely" point towards the trend of a creation of trade rather than trade diversion, since it is new products that are being exported and not just a re-orientation of markets from the traditional markets to the PTA markets. However, here we do not consider net effects of trade diversion and trade creation which needs rigorous production level analysis.

Table 3: Tanzania: Export of non-traditional Products to PTA Market (numbers of products).

Country	1985	1986	1987	1988	1989
Burundi	15	14	24	28	22
Ethiopia	2	5	-	1	-
Kenya	83	74	101	131	61
Malawi	11	9	9	27	12
Mauritius	6	2	2	3	2
Zimbabwe	7	19	33	41	11
Rwanda	8	9	7	14	5
Seychelles	1	1	3	12	4
Somalia	5	9	7	10	6
Swaziland	2	8	39	4	3
Uganda	11	28	24	-	23
Zambia	19	41	32	15	
Botswana	4	8	50	8	14
Lesotho	1	-	-	-	-

Source: Bank of Tanzania.

In 1988 there were 58 import companies using the PTA clearing house. In 1989 there were 142 companies using the PTA clearing house, a 145% increase. In 1990 (January to March) there were already 61 companies using the PTA clearing house. Within the imports, 79 products passed through the PTA clearing house in 1988; in 1989 167 products passed through and in 1990 (January to March) 70 products passed through (data from Bank of Tanzania).

Loss of duty revenue

One of the limitations of the PTA is that a reduction of tariffs will reduce government revenue. It is interesting to note that while the scheduled duty is high in Tanzania, the actual collected duty is not as high. We therefore calculated the duty Tanzania would have lost in 1989 assuming a 100% duty removal. This loss of revenue from imports in 1989 would have been Tshs542 million, which was about 6.8% of total duty revenue of dutiable imports of those imports which were traded in both PTA and non-PTA markets. This same figure is about 5.3% of total duty in that year. Tanzania's PTA imports were Tshs5,290 million, about 4.9% of total dutiable imports and about 3.8% of total imports for home use. However, this loss of revenue differs from sector to sector.

From Table A13 we note that the loss of revenue is not very high if indeed gains from PTA can be reaped. In 1989 the loss was high in animals, non-ferrous metals, essential oils, explosives and chemical materials. In general the loss of revenue is high in a sector depending on both the extent of the initial tariff level and the ratio of imports from PTA.

V The PTA clearing house and the use of UAPTA

The PTA clearing house is located in Harare in Zimbabwe. Countries use a unit of account for PTA (UAPTA) as a mean of measurement. Settlement is made after two months in convertible currency and countries with an unfavourable balance have to settle the difference. After the country settles the difference, it is the task of the clearing house to re-imburse the respective country's accounts. Each country belonging to the PTA is obliged to open an account with the clearing house whereby payment and deposits are made.

The use of the PTA clearing house by Tanzania emphasizes the significance of PTA trade for Tanzania. In 1988 there were 13 Tanzanian export companies using the PTA clearing house; in 1989 there were 20 and in 1990 (January to March) there were already 16 companies. From 1988 to 1989 there was a 54% increase.

Overall total transactions settled through the PTA clearing house has increased, especially since 1988. In addition, the overall balance for Tanzania's transactions settled through the PTA clearing house was positive, and important for Tanzania's balance of payments. Trade transactions channelled through the PTA clearing house show a significant increase from 1986 to 1988. Bank of Tanzania data shows that while in 1986 the percentage of Tanzania's intra-PTA exports channelled through the PTA clearing house was 0.3%, in 1987 it was 1.8% and in 1988 it was 20.5%. For imports it was 1.3% in 1986, 3.8% in 1987 and 12.6% in 1988. UAPTA is also increasingly gaining prominence in settling intra-PTA trade.

Problems of the PTA clearing house

While there appears to be an increase in the use of the PTA clearing house, many problems have evolved in the process of using it. The major problem facing the PTA clearing house is the rigidity of the member countries in insisting that some commodities should be exported only by using a convertible currency. For example, in the past, Tanzania has insisted on the use of convertible currency for payment of cement and railway services. Another problem is gaining the certificate of origin before a company can qualify to use the PTA clearing house.

There are other reasons why the clearing house is still under-utilised. First, indifference on the part of monetary and licensing authorities to comply with the decisions of the PTA policy organs. Most of the monetary authorities are indifferent about the use of the clearing house. Apart from having an officer who handles PTA affairs, in addition to other matters, most of the monetary authorities do not have a follow-up mechanism to ensure compliance of their directives by commercial banks. The PTA officer merely handles communication with the secretariat rather than ensuring that PTA decisions are implemented at the national level.

In most of the countries it is left to the exporter or importer to determine whether a transaction should pass or not pass through the clearing house. This has created a conflict between trade liberalization on the one hand and clearing house transactactions on the other.

Second, export retention schemes: Because of the lack of action by monetary and licensing authorities, many exporters still invoice their exports in foreign convertible currencies and importers continue to be invoiced in foreign convertible currencies. This is partly due to tradition, but in some cases it is largely attributable to export retention schemes that have snowballed in a number of countries in an attempt to promote non-traditional exports. Under the export retention schemes, exporters are allowed to retain a certain proportion of the export proceeds in convertible currency to enable them to import needed intermediate inputs and spare parts in production. Export retention schemes have therefore worked against the clearing house.

Tanzania's export retention scheme has also worked against the use of the PTA clearing house. The Governor of the Bank of Tanzania has stated that exporters to PTA countries are also eligible to retain part of their export earnings in any convertible currency. But there is a problem in the retention scheme because it has an in-built automaticity with regard to the currency of invoice. If an exporter invoices in US dollars, he retains part of his export proceeds in US dollars; if he invoices in Tanzania shillings or UAPTA he retains part of it in Tanzania shillings or UAPTA. Since the exporters perpetually have to import needed spare parts and intermediate inputs from outside the PTA, the retention of export proceeds in Tanzania shillings or in UAPTA is unattractive. Hence, Tanzanian exporters are reluctant to invoice their exports in Tanzania shillings or in UAPTA.

Third, clandestine activities and border trade: The problem of invoicing is compounded by the existence of exporters who transact outside the exchange control regulations. To evade these regulations, some exporters seek commission on the value of the exports from their customers remitted to their accounts with foreign banks abroad. Since it is not possible to engage in such illegal activities under the PTA clearing house, such exporters are unwilling to invoice in their national currencies or in UAPTA.

A related problem is the underinvoicing of exports and overinvoicing of imports which is practised to remit funds abroad. These illegal activities are difficult to conduct using the clearing house, and means that a substantial volume of trade takes place outside the official channels.

Fourth, operational problems: Due to the indifference of the monetary authorities and the lack of information sent to commercial banks, coupled with lack of supervision by the monetary authorities, serious operation problems have surfaced in the use of the clearing house. These problems relate to the opening and funding of correspondent accounts of commercial banks and the treatment of letters of credit. Delay in effecting payment to exporters and delay in providing cover for transactions have also been cited as problems.

Fifth, foreign currency allocation and licensing systems: The foreign currency allocation and licensing systems of some of the member states presents serious obstacles to the smooth operations of the clearing house. PTA member states have been reluctant to relax, with a view to eventually eliminating, the system of import licensing and foreign exchange allocations to their industry. The apparent reason for the non-compliance is that member states fear that doing away with import licences will impose an unbearable burden on the limited foreign exchange available.

Sixth, import support schemes: Economic difficulties being faced by some of the member states also plays a part in the underutilization of the clearing house. Schemes such as import support schemes are conditional upon imports coming from donor countries, diminishing the use of the clearing house.

Seventh, traditional exports and export commodities with high import content: Most member states are unwilling to sell their traditional exports to PTA countries through the clearing house, although the amounts of exports to PTA countries of such commodities are very small. It is argued that since these exports are their most important foreign exchange earners they cannot barter them for local currencies. Most of the member states are also reluctant to export goods of high import content through the clearing house.

Eight, competing payment arrangements: There are also many existing competing payment arrangements and these continue to frustrate the operations of the clearing house.

Ninth, direct payments: The existence of direct exporter/importer settlement has also hampered the operations of the clearing house. There are some importers who import from their suppliers by paying the suppliers directly using cash, cheque or draft and such transactions do not go through the clearing house.

The conflict between trade liberalization and encouraging the use of the PTA clearing house needs further investigation. The clearing house is bound to have bureaucratic procedures and increased red tape. If this is so, the lower tariffs in PTA might be offset by the increased red tape and other transaction costs. There is thus a need for further investigation of the workings of the clearing house to ensure that it does not enhance expensive trade.

The analysis here falls short of observing which firms and sectors have most readily adopted UAPTA, what can be done to increase the use of UAPTA, how committed are PTA governments to UAPTA, how essential is it to the success of the PTA, issues which are very important and call for indepth study.

VI A case study of Tanzanian exporters

To compliment the results of the study we surveyed about 40 Tanzanian exporters who trade with the PTA countries. The survey was conducted by both questionnaires and direct interviews. The sample was limited by the number of exporters who engage in PTA trade and those who were willing to participate in the survey. Some of the exporters produce the exports while some act only as agents. The extensive questionnaire included information which described the firms or traders, types of exports, production, capacity utilization, foreign exchange applied for and allocated, transport costs to PTA and non-PTA markets, and usage of the clearing house, etc.

The survey gave an insight into PTA trade as viewed by exporters. The problems of the clearing house as identified by respondents were:

1) Payment for exports is effected after a very long time;
2) It is very cumbersome to get import licences;
3) UAPTA currency cannot be used in the importation of raw materials. One has to receive local currency instead of foreign currency; and
4) Bureaucracy and extensive documentation.

Points 1, 2, and 4 also refers to trade with non-PTA markets. From the survey study we also found that some of the dynamic effects and benefits of the PTA have already been achieved. At the firm level, most of the exporters to PTA countries indicated an increase in output both in terms of value and quantity. The largest increase was from 1986 to 1988 and then a kind of stabilization took place, although still with an upward trend.

Capacity Utilization

Many of the firms surveyed have increased their capacity utilization over time. One of the firms had an increase in capacity utilization in the period 1986 to 1989 by 200%. Another firm increased capacity utilization by about 138% in the same period. Several other firms surveyed had modest increases. While the increase in capacity utilization could have been caused by other factors, we propose that increased trade in the PTA area also made a positive contribution. Some of the firms surveyed indicated that they did not increase their capacity utilization because of the following: lack of market, lack of operating capital, machines used for too long, unavailability of raw materials, lack of working materials, frequent power failures, licences issued late, letter of credit not opened, outdated machines, inflation or high cost of replacement, interruptions in power and water supply. We asked the firms to rank the problems and most of the firms said the first problem was lack of foreign exchange for importation of inputs (about 50%) and the second as interruptions in water and electricity supply.

Table 4: Tanzania: Production of products exported to PTA countries.

Product	1984	1985	1986	1987	1988	1989	1990
Timber (m^3)	4,568	6,477	5,768	6,716	8,796	11,321	14,830
Plywood (m^3)	286	143	378	293	429	193	-
Flush doors(pieces)	2,557	1,998	-	748	1,454	643	-
Poles	696	624	600	19,377	22,562	11,834	-
Quantity exported	-	-	52	356	498	494	992
Hardboard(tons)	4,810	3,535	5,347	4,275	2,727	5,204	6,204
Timber(m^3)	5,667	4,576	5,642	5,178	5,070	8,454	7,830
Flush doors	10,262	4,778	-	743	260	1,417	699
Poles	2,383	2,419	4,114	9,055	9,383	9,021	-
Packaging material	-	-	-	340	686	545	283
Tents	-	-	82	347	465	463	551
Tarpaulins	-	-	1,657	1,459	721	116	163
Grain Tarpaulin	-	-	215	262	464	323	533
Canvas goods	-	-	37,635	19,289	21,862	30,919	9,851
Leather items	-	-	2,596	10,046	15,616	4,670	8482

Source: Survey Data.

Transport Costs

One of the advantages of having a PTA is the issue of proximity. Many firms surveyed indicated that the transport costs to the PTA market was much lower than the transport costs to non-PTA markets. For example, a firm indicated that it paid £94.6 per metric tonne for exports to Zambia while for India, a non-PTA market the cost was £1,810 for 20 ft. containers. All the firms showed that the transport costs to the PTA market is much lower than the costs to non-PTA markets. The products which these transport costs refer to includes aluminium products, radiators, tents, vehicle tarpaulins, canvas goods, leather items, spirits, wood products, cement, chip boards, hard boards, galvanised buckets, moulded items, rollers and hoses.

Employment

There was a general increase in employment by firms that exported to PTA. For example Aluminium Africa increased employment by 38.7% from 1988 to 1991.

Many of the firms are import dependent in terms of inputs and have problems of foreign exchange. Some export at a loss, meaning that the foreign exchange they get from exports is not enough to pay for their imported inputs.

Other dynamic benefits of having a PTA take a longer period to achieve and are not very easy to assess. These include achieving a balance of payment equilibrium, avoiding economic dualism, developing innovations, etc.

Summary

The first part of this study evaluated and analysed the general trend of Tanzania's trade with PTA countries. The analysis indicates that there has been a general increase of intra-trade within the PTA framework. Annual trade statistics show that many products traded are new, which points to new traders, especially private individuals, entering the market. Trade has increased, especially after 1988. There is ample opportunity for trading in the PTA region especially with non-traditional commodities. For individual countries like Tanzania, there is an opportunity for exporters to diversify. There are few products that are exported to both PTA and non-PTA markets. We observed that the loss of revenue was not that large, but it also differed from sector to sector.

The second part takes trade between Tanzania and Kenya as a special case of PTA trade and analyses further the benefits and problems of cooperation. We also analyse the trade that has taken place so far.

VII Trends in trade and cooperative between Tanzania and Kenya

One of the basic similarities between Tanzania and Kenya is that both were former British colonies (after the defeat of Germany in World War I). Kenya was a crown colony and Tanzania was administered by Britain as a Trust Territory on behalf of the United Nations. Even after independence the two countries' trade continued to be dominated by Britain, although over time the markets became more diversified.

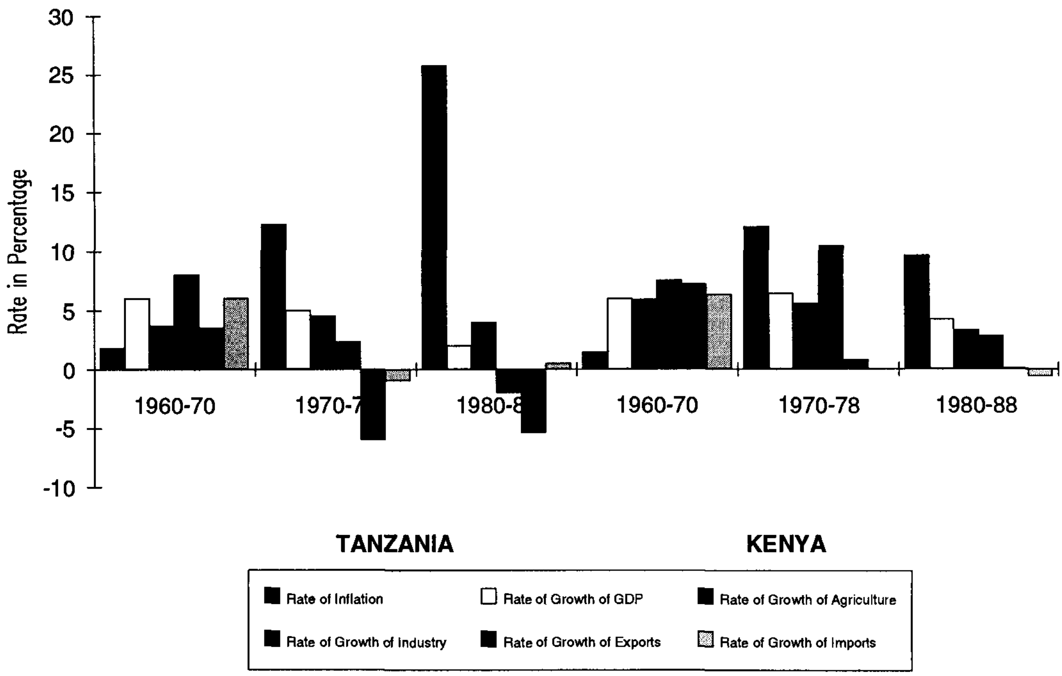
On a regional trading level, especially in the 1960s, the two countries traded mostly within East Africa and trade with other African countries was relatively small. According to Ndegwa (1965), the small volume of trade with other African neighbours was attributable to six factors. First, climate and geological similarities made trade competitive rather than complementary. Second, transport and communications between these countries was poor. Third, different fiscal and monetary systems inhibited the growth of trade. Fourth, little effort was made by the governments of these countries to trade with each other. Fifth, the countries had different colonial masters whose commercial policies were directed and controlled by their respective metropolitan powers. Sixth, there was no networks for economic cooperation between these countries.

This section is about trade and cooperation between Kenya and Tanzania in the 1960s, 1970s and 1980s, with particular focus on Tanzania. The study of Tanzania and Kenya is important because these two countries share a common border, have belonged to a common regional arrangement, the East African Community, became independent from Britain around the same time (Tanzania in 1961 and Kenya in 1963), and both now participate in the PTA for East, Central and Southern Africa. Further, transport links between these countries are relatively good, including rail, road, sea and air.

Key Economic Indicators in Tanzania and Kenya

The population of the two countries taken together in 1989 amounted to about 48.9 million. This fact reveals the potential for increased markets and therefore for the countries' industries to be able to achieve economies of scale. However, although the population is important, the effective demand of the goods and services will be reflected more by the per capita income which, taken individually, is quite low. For Tanzania it was about US$ 120 in 1989 while for Kenya it was US$ 370. In terms of size, Tanzania has an area of 945,000 km^2 whereas Kenya has 583,000 km^2.

Figure 1: Kenya and Tanzania: key economic indicators



Source: The World Bank, *World Development Report*, 1976, 1980, 1990.

Other indicators are shown in Figure 1. In the 1960s the two countries were growing at more or less the same rate. The average annual growth rate of per capita GNP in the period 1960 to 1976 was 2.6% for both countries.

The average annual rate of inflation for the period 1960 to 1970 was 1.8% for Tanzania and 1.4% for Kenya. The growth of production shows that the average annual growth rate of GDP for the period 1960-70 was 5.4% for Tanzania, compared to 7.1% for Kenya. In terms of sectors the average annual growth rate of agriculture production for the period 1960-70 was 3.7% for Tanzania and 5.9% for Kenya, while that for industry was 8% for Tanzania and 7.5% for Kenya. The growth rate of imports was nearly the same at around 6%. However, a marked difference is shown with the growth rate of exports, Tanzania having 3.5% and Kenya at a higher rate of 7.2%.

The inflation rate, the growth rate of GDP and that of agriculture was similar fo both countries in the period 1970-78. However, the growth rate of industries shows an increasing dissimilarity as Kenya had 10.4% while Tanzania had 2.3% during the same period. Also, the growth rate of exports that show that Kenya had a positive figure of

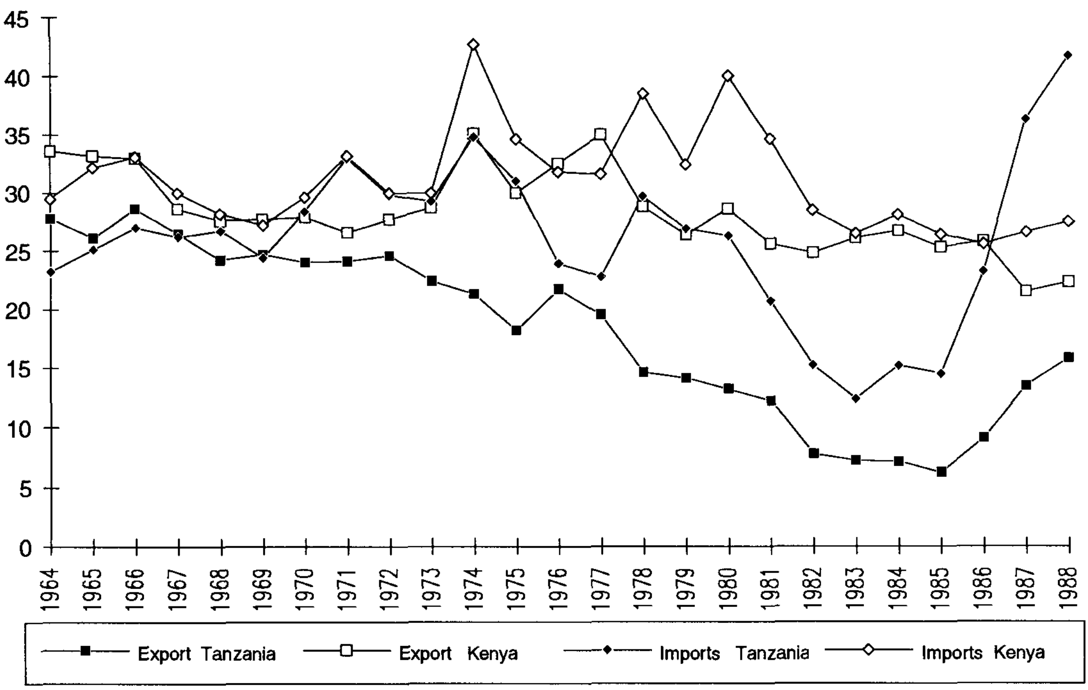
0.8% while Tanzania had a negative 6%.

The 1980 period offers more interesting comparison as the dissimilarities increase. For the period 1980-86, Tanzania shows a very high inflation rate of 25.7% as compared to Kenya with 9.6%. There is also a divergence in the growth rates, that of Kenya being higher, i.e., 4.2%, as compared to Tanzania with 2.0%. The growth rate of agriculture was nearly the same - 4% for Tanzania and 3.3% for Kenya. With industry, Tanzania had a negative growth rate of 2%, while Kenya had a positive figure of 2.8%. Exports in Tanzania showed a significant negative growth rate of 5.4% while that of Kenya although low, was positive at 0.1%. The growth of imports was nearly the same for both countries.

Overall then, over time and compared to Tanzania, Kenya was in better shape in terms of inflation, production, and trade.

Another important comparison of the two countries is their degree of openness, in our case indicated by their share of exports and imports of goods and services to monetary GDP. Figure 2 shows that from the period 1964-88 the two countries had a high ratio of foreign trade in their GDPs. Imports as a percentage of GDP, was over 25% on average for both countries. With exports as a percentage of GDP, Tanzania had a lower percentage than Kenya. While in the 1960s these ratios were nearly the same for the two countries, in the 1970s there were more fluctuations. In the 1980s while Kenya kept a small gap between exports and imports, for Tanzania the gap was considerably widening, with exports relatively lower than imports.

Figure 2: Tanzania and Kenya: Shares of Exports and Imports in GDP (%)



Sources: Calculated using data from IMF, *International Financial Statistics Yearbook*, 1991.

Co-operation and trade between Tanzania and Kenya: pre-1960

It is plausible that co-operation between Tanzania and Kenya existed even before colonialization, especially in regard to trade along the border since many of the tribes along the border share a common heritage. In fact, some tribes are artificially divided by the border which makes it "porous". However, formal cooperation can be traced to the early 1900s, especially after the British colonialization when the markets of the two countries were integrated and linked with each other.

East African regional cooperation can be traced back to 1901 when the Kenya-Uganda railway was built. Communications were extended to Tanzania after the end of World War I, reflected in the extensions of the railway line from Voi to Kahe to link with the then Tanga-Moshi railway line. Other forms of cooperation included the establishment of a Currency Board (in 1905), a postal union (1911), and a customs union (1917). The ceding of Tanzania mainland to British rule, after the German defeat in the war, brought fiscal and administrative cooperation following the Ormsby-Gore Commission of 1924. The periodic East African Governors' conference ensured closer co-ordination of research, harmonisation of commercial laws etc., and later an establishment of the East African Common Market. The industrial licensing ordinance of 1952 was jointly administered with the other two East African territories with the aim of the "orderly promotion and development of manufacturing industries in East Africa as a whole" (Mwase, 1982).

The 1960s

According to Kim (1979), the structural characteristics of Tanzania and Kenya in the 1960s had their origin in the colonial policies of the past. This was portrayed by the general lack of complementary production and industrial structure between each other. Economic policies under the colonial administration had been geared to develop an industrial structure in a manner that strengthened the overseas metropolis, not with the neighbouring countries, a fact revealed by the region's trade pattern. Despite the established common market arrangements, both the volume and range of the products for intra-regional trade have historically been insignificant in relation to the trade with the rest of the world.

There is also a disparity in the level of industrialization between the two countries. Industrial development tended to be concentrated in Kenya during the inter-war period, with investments flowing into Kenya rather than Tanzania. At the time of independence, their economic structure became increasingly similar, rather than complimentary.

Industrial imbalances had been present long before the East African Community (EAC) was born. At the time of Tanzania's independence in 1961, Kenya's manufacturing output was about 10% of its GDP, compared to Tanzania's 3.4%. Kenya's attraction for new industries continued in the post-independence era (Mwase, 1982). Dresang and Sharkansky 1973) observe that Kenya was an attractive target for money because outsiders ranked it as having the highest 'absorptive capacity'. They argued that its relative wealth, skills and markets enabled it to make use of new funds while offering Western-oriented African capitalism, in contrast to Tanzania's socialist path to development.

After independence, one of the objectives of the two countries was to move to rapid industrialization and this was done through import substitution. The benefits derived by a country from the Common Market depended on the commodity composition of its exports to the partners. The commodity composition of inter-country exports gives an idea as to how much the Common Market was assisting each country in achieving the main objective which was to industrialize. Table 5 shows that for Tanzania, exports in the SITC categories 5-9 as a percent of the total was 47% in 1964, 41.4% in 1965 and 49% in 1966. While these were high, the value of these exports declined from £2.413 million in 1964 to £2.278 million in 1966. However, in terms of imports, the value of commodities in the same category 5-9 was 55.9% in 1964, 54.1% in 1965 and 60.6% in 1966. In most of the categories Tanzania was importing more than it was exporting, except in category 2. However, at the same period Kenya was exporting more than it was importing in nearly all the categories except category 2. For example, in 1966 Kenya exported 56.7% of its total from category 5-8, while it imported 50.4% of total. Tanzania was thus relatively less industrialised than Kenya. Moreover, the Common Market was effectively assisting Kenya rather than Tanzania.

Table 5: Tanzania: Commodity composition of inter-country exports and imports, 1964-1966 (£000s)

SITC	1964		1965		1966	
Category	exports	imports	exports	imports	exports	imports
0	1,333	2,907	1,696	2,919	1,024	2,893
1	425	2,194	725	1,503	411	1,048
2	369	125	261	206	456	218
3	14	1521	2	2,859	5	2194
4	577	172	780	176	475	105
5	79	1,990	59	1837	96	2008
6	1,713	4,098	1,843	4,542	1,660	6055
7	7	92	8	144	105	192
8	606	2,491	533	2,384	406	1,633
9	8	90	9	107	11	55
sect- 5-9	2,413	8,761	2,452	9,014	2278	9,943

Note: For SITC categories, see Table 2.
Source: Ndegwa P., 1965.

During the early 1960s, Tanzania complained that the East African Co-operation favoured Kenya in most aspects. In trade Tanzania complained that it had a consistent deficit with Kenya mainly because most of the industries were located there. Re-assessment of the relationship then took place. The Raisman Commission in 1961 attempted to redress the inequalities with a fiscal compensatory arrangement. Under this arrangement a distribution pool of revenue was to be transferred from Kenya to the other member countries, including Tanzania. This continued until it was phased out in 1967 (Ndegwa, 1965).

Disputes based on unequal distribution of benefits persisted. The Kampala Mbale agreement in 1964 was one way to settle the dispute and was designed to reduce trade imbalances in inter-country trade. It was also supposed to settle disputes by geographically allocating the other member countries new industries which were supposed to cater for the whole region. Further, it was agreed that the deficit country could impose certain quotas against surplus countries as a temporary expedient to redress the imbalances. Although some re-location of industries did take place, the agreement was not very effective.

With the failure to distribute industries, Tanzania increasingly introduced trade restrictions in East African trade. In justifying these measures President Nyerere said: "each of our three Governments is answerable to the people of its own country - regional loyalty has sometimes to come second in our national responsibilities" (Nyerere, 1973). Quotas on imports from Kenya were imposed by Tanzania, although Kenya complained that they were imposed in a manner inconsistent with the agreement. Tanzania also imposed other quantitative restrictions against a large number of products from Kenya. For example, in 1966 alone there were eight notices indicating the imports put on licence (Ndegwa, 1965). The use of restrictions against Kenya's exports to Tanzania increased after the break-up of the common currency in 1966 and the establishment of different Central Banks. Other obstacles to trade were also introduced, notably new road taxes and exchange controls by Tanzania. Another obstacle to trade was the delay in getting import licences (Ndegwa, 1965; Mwase, 1982).

The East African Community

From the late 1960s until 1977 trade and other cooperation between the two countries was dominated by the East African Community. Moreover, in Tanzania one of the official reasons given for poor performance of the manufactured exports in the late 1970s and early 1980s was the breakdown of the East African Community which made it necessary to switch markets. When the problems with the Common Market, largely centred on the distribution of benefits, surfaced, the Raisman Commission (Ndegwa, 1965, p.104) pointed out that:

> The common market is of such economic importance to [the East African countries'] economic future, and the danger to it from internal strains so great, that some inter-territorial redistribution of income ... is urgently called in order that the common market may be preserved.

The problems of the Common Market led to the Phillips Commission and the 1967 Treaty for East African Co-operation, establishing the East African Community. The East African Common Market was also formalised in the treaty.

The treaty proposed a scheme covering a wide range of activities within a highly organised system. However, the dissatisfaction of the distribution of the benefits of integration was still eminent and change was essential once integration became voluntary and not enforced by the colonial power. Most industries serving the whole East African market were located in Kenya. The headquarters of the various services, employment and income creating benefits of the services accrued to Kenya. With the treaty, a Transfer Tax System was introduced to promote balanced industrial development. The tax was a kind of protective charge imposed on manufactured goods imported by a partner state from another state. Transfer taxes were to be imposed if the country had an overall deficit with the partner country and were to be imposed only on a product that the tax imposing state itself produced on a certain minimum scale. The tax rate was not to exceed one half of that of the external tariff on the product, and the tax was to be imposed for a maximum period only of eight years.

The treaty provided that inter-state trade was to be free of quantitative restrictions except with some specified commodities. With the exceptions of petroleum products, nitrogenous fertilisers and sugar, all quantitative restrictions on trade in manufactures were to be removed and those on agricultural products reduced in number. The countries were also supposed to agree upon a common scheme of fiscal incentives for industrial development. The treaty also established an East African Development Bank to foster industry in general with particular attention on less developed partners. Harmonization of fiscal incentives was provided for harmonious industrial development and to avoid unnecessary revenue loss through competitive concession offers.

The East African Community was complex, encompassing nearly every aspect of East African trade. However, around the same time, the two countries were bustling with their own national developments. For Tanzania, 1967 marked a remarkable change in policy. With the Arusha Declaration the policy of socialism and self-reliance was adopted. This was accompanied by a massive nationalization of the "commanding heights" of industry, and the birth of the Tanzania State Trading Corporation.

The Tanzania State Trading Corporation (STC) was established by the State Trading Corporation Act in February 1967 to take over the business of companies that had been nationalised. The importation of a number of products was confined to the control of the STC. In Kenya, the importation of a number of commodities was confined to the Kenya

National Trading Corporation under the Imports, Exports and Essential Supplies Act of 1968. The KNTC appointed distributors for each product, with the aim of increasing African participation in trade.

While none of the state trading bodies was specifically and explicitly concerned to foster domestic production by restricting imports or transfers from other countries, nevertheless, the view in each country was that the state trading body of the other country acted in a discriminatory manner by favouring national producers and restricting inter-state trade. A corporation may decide not to import a product because it wished to support the domestic industry, even though the import was cheaper than the domestic product or even of better quality. A country could pursue a policy of adding a high mark-up to imports, or charging a high commission to importers, so that imports were put at a price disadvantage in the domestic market. Administrative procedures for importers could also be made so burdensome and lengthy as to constitute a serious barrier to trade. The administrative inefficiency was a highly effective protective device. Moreover, the countries were aspiring towards self-sufficiency so trade with each other came second to national interests.

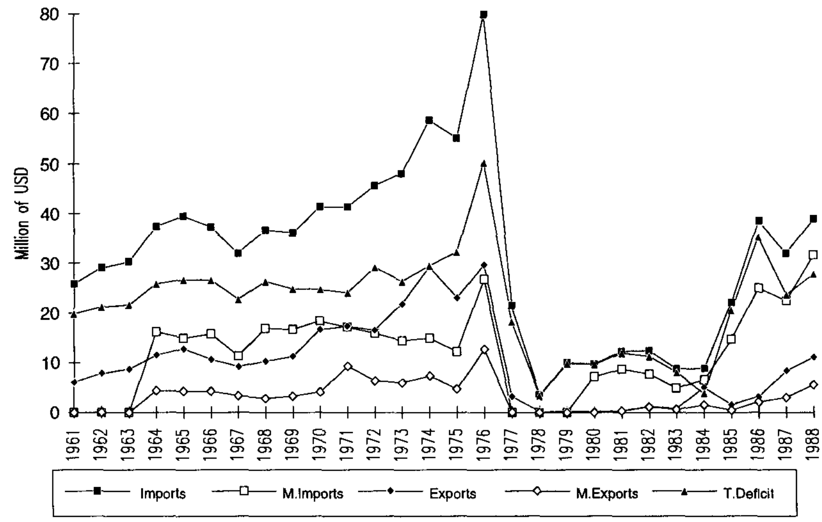
The 1970s

From the beginning of 1970s there was an increase of Tanzania-Kenya trade. The highest figure is in 1976 where exports to Kenya from Tanzania were about US$29.6 million and imports from Kenya to Tanzania were about US$79.8 million (see Figure 3). Also at the same time, more manufactured exports were exported to Kenya and more manufactured imports were imported compared to the previous period. However, Figure 3 also shows that the Tanzania's trade deficit with Kenya was increasing and in 1976 it was at its highest. Tanzania's trade deficit with Kenya, which stood at US$19.7 million in 1961 had risen to US$26.6 million in 1965. By 1976 the trade balance was US$50.2 million.

Both countries experienced external shocks in the 1970s. After 1970, erosion of the intra-regional trade took the form of a series of restrictive trade measures, first adopted by the less industrialised Tanzania and then to a lesser degree by Kenya itself. Although the restrictions on imports arose because of the balance of payments difficulties, brought on by global inflation and the global oil crisis of the early 1970s, it is significant that the restrictions were applied equally to imports from other partner states.

In Tanzania different categories of imports were subject to different national ceiling levels, which followed an import plan designed to be consistent with the national planning objectives. The import licensing scheme was to be enforced by the Bank of Tanzania with restrictions equally applied to imports from Kenya. Restrictive measures applied by Kenya were less severe. Imports from Tanzania were in general not subject to import-licensing requirements. The State Trading Agencies of the two countries were known to give preference to domestic suppliers in purchasing decisions. Coupled with administrative delay and inefficiencies of state enterprises experienced by importers, this generally discouraged imports from abroad (Ndegwa, 1965; Hazzlewood, 1973).

Figure 3: Tanzania: Trends in trade with Kenya (US$ million)



Source: Tanzania Economic Survey (several issues), Bank of Tanzania and Tanzania foreign trade report.

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When the community collapsed in 1977 there was an immediate closure of the Tanzania-Kenya border. The reason for the collapse has been analysed elsewhere and we will not dwell on it in detail here, but only mention those reasons we feel were important, especially in relation to trade. First, is unequal benefits. With time there was an erosion of the belief that the Community was benefiting all members and in fact Tanzania felt it was consistently being exploited by Kenya. Tanzania saw a loss of revenue which could otherwise have been received if it imported from elsewhere. Tanzania also felt that the trade deficit with Kenya was intolerable, and that Kenya was not ratifying some of the agreements.

Second, the East African Common Market institutions lacked the formulation of concrete planning for regional industrial development. According to Hazzlewood (1988), the relevance of inter-state planning and integration was contradicted by the extent to which industrial development was undertaken with foreign capital, especially capital from transnational corporations. In a largely *laissez faire* scheme, which included a scheme where the market was equipped by a device such as transfer tax, even if fiscal incentives were harmonised, the members would be competing for favours from foreign firms and consequently their bargaining power would be drastically reduced. Duplication of investment dissipates the gains, with the gains in any case going mainly to the foreign enterprises. In addition, at this time the attitude to foreign enterprises was different in Kenya and Tanzania. The benefits from the common market began to disappear with the duplication of industries. On this President Nyerere of Tanzania said:

> Each of the partner states goes ahead on its way, trying to interest foreign firms or foreign governments in such projects. And the foreign firms do sometimes agree. After all, their main concern is to sell their machinery to us, either for the purpose of extending their competition to East Africa, or simply as a means of making immediate profit for themselves. In either case the cost of the necessary subsidy will have to be borne by us. So we have the absurd position where both Kenya and Tanzania, in partnership with competing foreign firms, set up a tyre factory - each of which require the whole East African market to be economic.[3]

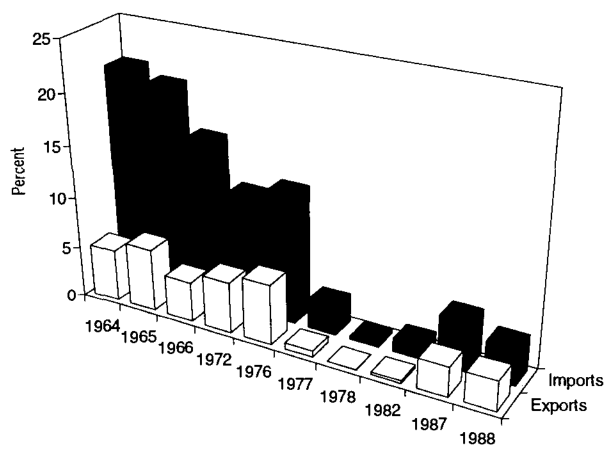
Third is ideologies: while the two countries did pursue import substitution strategies of development, and government interventions increased over time, Tanzania followed a socialist path to development, "ujamaa", while Kenya followed a capitalist path. In fact, many studies on Sub-Sahara Africa categorise Kenya as a market-oriented country, while Tanzania is regarded as interventionist in trade policies (Balassa, 1990). Over time there was a growing ideological division between the government of Kenya and that of Tanzania. These differences made cooperation difficult and was used from time to time as 'pegs on which to hang mutual political abuse' (Hazzlewood, 1988).

Fourth, balance of payments problems in both countries meant that the two governments were preoccupied with saving foreign exchange. This encouraged further restrictions even in the intra-state transactions unpleasant to the partners. Moreover, there was the imposition of restrictions in transfer of funds from the regions to the headquarters of the Common Market. Other reasons for the breakdown include competition of the road-rail services, the intransigence of Idi Amin of Uganda, and the disintegration of Tanzania's roads by heavy trucks from Kenya.

However, one thing which was apparent, especially in the years that followed, was the importance of the East African Community for the countries involved. The common market was important for the growth of Tanzania's exports, including exports of manufactured goods. It is noted in many works and official publications that the EAC's collapse had a direct consequence on these exports in terms of loss of market. In 1964, 6.4% of Tanzania's exports were intra-community, in 1970 it was 8.2% and in 1971 it was 10.5%. For 1971, out of the 10.5% about 40% was manufactured exports. In 1976 about 51.2% of all manufactured exports were directed to the community and Kenya alone accounted for 48.1% of the exports of manufactures from Tanzania.

These figures indicate the gravity of the collapse of the community in 1977 and the consequential closure of the border with Kenya. Within a short period of time the situation changed dramatically. From total exports of US$ 29.6 million in 1976 the figure was US$ 3.2 million in 1977 and dwindled to only US$ 0.11 million in 1978. This had a tremendous effect on the export of manufactures, especially in the textile subsector (Republic of Tanzania, 1979-80). Also the custom union had obliged the countries maintain a conducive environment which was good not only for investment but also for employment creation. This was also destroyed.

Figure 4: Tanzania: trade with Kenya as a percent of total trade.



Source: Bank of Tanzania. *Economic and Operations Reports* (various issues).

Figure 4 shows that, percentage wise, Tanzania's trade with Kenya was more significant during the common market period. Exports to Kenya were around 5% in the 1960s, by 1976 they increased slightly to 6%. However, the breakdown of the Community in 1977 and the closing of the border meant very low trade with Kenya. This trend is expressed also in the case of imports from Kenya. These imports were quite substantial in the 1960s at about 20%. However they decreased from 1966, by 1972 they were about 11%, and by 1978 were only 0.3%. Imports from Kenya in 1979 increased due to some companies, for example General Tyre Ltd., getting a special permit to import some raw materials (Republic of Tanzania, 1978-79).

Illegal Trade

The union was expected to help combat smuggling between countries (Hopkins, 1961). With the breakdown of the Community and the closure of the border with Kenya, illegal trade increased. Maliyamkono and Bagachwa (1990) estimated that the size of the underground economy as a percentage of official GNP in Tanzania was 9.8% in 1978, 21.1% in 1979, 24.2% in 1980, 28.2% in 1982 and 31.4% in 1986.[3]

Concern about illegal trade has gained precedence in the literature (see Kemp, 1976; Bevan *et al.*, 1989; Odegaard, 1985). Many studies have explored the reasons why trade is carried out. It has been pointed out that, in general, the restrictive policies followed in many countries create incentives for illegal trade. Restrictions such as import tariffs, quotas, exchange control, state trading monopolies, and export restrictions such as declaration of the foreign exchange obtained and export licensing create incentives to beat the system. Relative price differentials between countries and shortages in a particular country also encourage border trade. Scarcity and shortages in some of the neighbouring countries create effective demand and high profits. This may be one of the reasons why it is difficult to control smuggling, which occasionally requires regional co-operation.

Tanzania in particular intervened to regulate the production and distribution of industrial products and trade. The intensity of the control mechanism in industry and trade evolved over time and was severe, especially in times of foreign exchange problems. The regulation mechanism included state ownership, allocation of foreign exchange, tariffs, industrial licensing, price controls and confinement policy. The intervention encouraged the emergence of the illegal trade first, because scarcity of goods, especially in early 1980s created excess demand. Second, the overvaluation of the currencies generated a gap between official versus parallel market exchange rates. Third, tariffs and quotas influenced a differential in the selling price of identical tradable goods that were both legal and smuggled. We can also include the low quality of goods produced in Tanzania which created a market for higher quality goods from Kenya (higher as perceived by consumers). Bans of some commodities by Tanzania further encouraged smuggling.

Price controls and the confinement system were not effective against smuggling because prices of products could not be set and maintained by decree against the pressure of supply and demand without negative effects. In Tanzania, since foreign exchange shortages meant that shortfalls could not be covered by imports, potential rents were created as the unsatisfied customers were willing to pay above the controlled prices, thus resorting to the illegal channels.

Cases of smuggling in Tanzania have been reported in the local newspapers and discussed in the national assembly and elsewhere. For example an independent newspaper, the *African Analyst* reported that:

> Freelance importers....are increasingly getting their foreign exchange from smuggling....(7 August 1987).
>
> Famine is likely to hit Tanzania's Kilimanjaro region as a result of increased large scale smuggling of food produce and other items from the region to Kenya. Smuggled items include maize, rice, wheat flour, beans, fruits, and clothes- new and second hand (25 November 1988).
>
> Tanzania's officials are now concerned with the alarming level of smuggling across the borders (31 March 1989).

It is difficult to authenticate accurately the quantity of goods smuggled in and out of Tanzania. Nonetheless different studies on smuggling corroborate the co-existence of smuggling and legal import-export activities. Some companies may register to export or import only to facilitate smuggling. It is therefore difficult for the government to detect and quantify the volume or size of the foreign trade carried out through smuggling. At times smuggling is a sophisticated business in Tanzania undertaken with prior planning and for profits, not just for survival.

Over and underinvoicing in Tanzania's trade with Kenya

To prove that underinvoicing and overinvoicing of both exports and imports exists in Tanzania we employ the method suggested by Bhagwati (1981) among others, and utilised by Sheikh (1974, pp. 355-364) in the case of Pakistan. The method is to check the trade between the country and trading partners by comparing data reported by the domestic country and the data reported by the trading partners and calculating if there is a difference.

It is rumoured that smuggling is rampant between Tanzania and Kenya. In general overinvoicing of imports is carried out for capital flight and underinvoicing is to avoid paying of duties. While underinvoicing of exports is intended to take out foreign exchange from the country, overinvoicing is intended to legally bring into the country foreign exchange which is illegally held abroad. In a situation where an exporter was supposed to declare foreign exchange to central bank and instead get local currency, and when applying for foreign exchange the chance was that he/she might not get the amount needed, there is an incentive to underinvoince exports and thus keep the balance abroad.

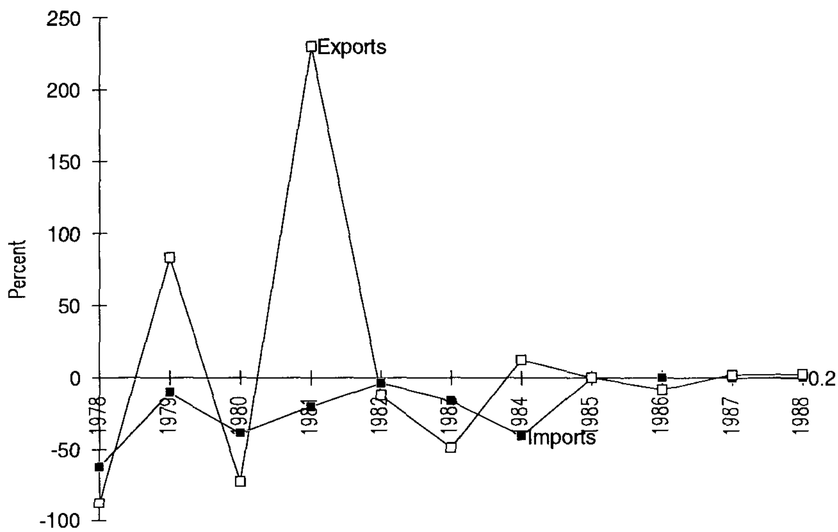
In Figure 5 over/underinvoicing is calculated as, if M_t is imports reported by Tanzania and E_k is exports reported by Kenya (adjusted by 10% to take care of the f.o.b. difference with c.i.f.) then overinvoicing and underinvoicing is given as:

$$(M_t\text{-}E_k)/E_k \times 100.$$

For exports, if Et (multiplied by 10% to take care of freight and insurance) is exports reported by Tanzania and Mk as imports from Tanzania reported by the Kenya, then over/underinvoicing is calculated as:

$$(E_t - M_k)/\ M_k \times 100.$$

Figure 5: Tanzania: Over and underinvoicing of imports and exports with Kenya (%)



Source: Calculated using data from IMF Direction of trade statistics, 1985 -89.

For imports we find from Figure 5 that trade with Kenya was almost consistently underinvoiced. Although Kenya might be also practising over and underinvoicing, the picture is still interesting. In 1978 imports from Kenya were underinvoiced by 62%. With a big change of policy in 1984 that brought in import liberalization there is an instant change with near zero under/and overinvoicing, which continues to 1988. Duties were also significantly reduced from 1984, initially for a few commodities deemed important to the government and later other commodities. Another important point is that a large portion of bans were removed around 1983 and 1984 for example, televisions and private saloon cars, and a high duty was installed instead. Also from time to time the government increases surveillance with the customs entry points which could have a possible effect on the volume and extent of unofficial trade.

Figure 5 shows there was both over and underinvoicing of exports. An interesting observation is the overinvoicing of exports to Kenya by 230% in 1981. This is quite large and ties in with the presumption that illegal trade between Tanzania and Kenya was rampant. Interestingly there is a big change in 1986, marking the beginning of the retention scheme, when importers and exporters were allowed to retain a certain portion of the foreign exchange. In spite of these observations, the fluctuations of the over and underinvoicing may merely signify "noise" in the data and therefore do not give us firm conclusions.

The data in Figure 5 shows that from 1978 to 1988 overall, there existed both over invoicing and underinvoicing in the trade between Tanzania and Kenya. The over/underinvoicing is heaviest during the period between 1978 and 1983 which coincides with the closure of the border. This period had higher import duties and more controls and was also characterised by severe shortages of both intermediate industrial goods and finished consumer commodities.

We should, however, point out that the procedure used to generate the data on over and underinvoicing is not error free because the discrepancy recorded may arise from errors in compilation in both countries. However, the trend tallies with the various policies pursued between 1978 and 1988, for example when there were more restrictions the figure is larger compared to the era of relative liberal policies.

The 1980s and macroeconomic policy changes in Tanzania

From the mid-1980s there were significant policy changes in Tanzania. From a situation of strict controls and laxity in the export policy, there was gradual significant change in the policies, for example, the exchange rate policy.

Exchange Rate Policy

The nominal exchange rate remained almost unchanged between 1961 and 1979. In the 1980s the need for adjustment was not only unequivocal but of utmost importance. This was mainly because the Tanzanian shilling was overvalued compared to its trading partners, especially Kenya. Economic indicator data indicates that in the 1980s the inflation rate for Tanzania between 1980-88 was 25.7%, much higher than Kenya's at 9.6%. Exports earnings declined, one of the repercussions of overvalued exchange rate. The economy experienced budget deficit which, as a proportion of GDP, had risen from

8.5% in 1977 to 17.8% in 1980.

Between 1980 and 1985 there were a series of minor devaluations of the shilling from the rate of US$ 1:8.32 in 1981 to US$ 1:16.32 in 1985. In June 1986 there was another big devaluation and then the crawling peg was adopted. By 1988 the shilling was down to US$ 1:120 and by mid-1989 it had reached Tshs145 to the dollar.

Other export promotion measures in Tanzania

A variety of measures were taken in Tanzania to promote non-traditional exports. The main aim of promoting these was to increase foreign exchange shortage.

Fiscal incentives

In the late 1970s the government introduced a number of incentives to promote the export of manufactured goods. The first group of incentives included duty drawbacks and an exemption scheme, introduced under the Refund of Fiscal Charges Act of 1970 (locally manufactured goods). Under this act, exporters were to be refunded or exempted from custom duties and sales tax on inputs if the products were to be exported. In practice, however, the operation of the scheme proved complex and cumbersome.

The export rebate scheme (cash subsidy scheme) was introduced in 1981 and involved giving a cash subsidy to the exports in local currency ranging from 0-25% of the export (FOB) price of manufactured and horticultural products. This subsidy, among other things, was supposed to compensate duty and sales tax for imported inputs. The cash subsidy scheme also aimed to encourage additional net foreign exchange contribution per unit, encouraging more utilization of local raw materials and excess capacity. It also aimed to offset the "shadow pricing effect", that is compensating the probable "loss" which exporters incurred as a result of competition in the world market *vis-a-vis* the lucrative domestic market. The export rebate scheme was abolished in July 1986 as one of the conditions of the Tanzanian IMF agreement signed in that year.

Tariff and non-tariff barriers

In the 1970s a differential export duties scheme was introduced which meant that local processing industries were to be exempted from export duties levied on products like sisal, cotton, coffee, tobacco and cashew nuts. The objective of this scheme was to encourage and protect local processing, but in practice the processing industries bought the raw material at the same price as foreign buyers (inclusive of export duties).

The acute shortages of imported and local consumer goods inspired the government to introduce a more liberalised policy towards imports in June 1984. In the budget speech of June 1984, the minister of finance announced that imports were to be liberalised in several ways:

1. The reduction of import duties;
2. Bans were lifted on items;
3. Individuals with own sources of foreign exchange to import were allowed to import certain commodities and allowed to charge market prices;
4. In effect the confinement policy was partially relaxed and the price controlled items were reduced tremendously.

The 1988-89 budget speech announced another new tariff structure. Considering the incentive for productivity in industries, demand for necessities and easy implementation, the 20 groups of dutiable items were reduced to 7 groups. The maximum level of import duty was reduced to 100%.

Export-import schemes

In the late 1970s an area of incentive was the preferential allocation of foreign exchange for importation of inputs for export production or for export promotion and business travel. No checking mechanisms that the inputs were used specifically for export were instituted, however.

Retention schemes

Retention on exports of goods and services was and still is one of major strategies designed to promote exports. The General Retention Scheme, which was launched in 1983, provided selected exporters with the possibility of retaining a part of the foreign currency they earned from exporting to enable them import some of their input requirements. The percentage of proceeds for retention was usually 10%.

In February 1986 the ministry of trade announced another retention scheme whereby exporters of non-traditional products were allowed to retain 50% of their export proceeds for the importation of specific items. The main objective of the scheme was to encourage companies and individuals to increase their efforts in generating foreign exchange. The retained foreign exchange could be used to import raw materials, intermediate inputs and basic consumer goods to enhance the production and availability of essential items. Product groups covered under the scheme included manufactures, minor agricultural crops, marine and some mineral products.

A wide range of non-traditional products have already been exported under this scheme. It has encouraged new exporters and, by December 1987, the foreign exchange earned under the scheme amounted to more than US$ 12 million. By June, 1988 352 foreign accounts were opened by exporters and by December of the same year the accounts had increased to 433. The retain percentage was, however, reduced to 35% in 1989.

Seed Capital Revolving Scheme

The seed capital revolving scheme (SCRS) was introduced in January 1985 to provide part of the foreign exchange requirements to enable a producer to commence export production and eventually export the final product. Under the scheme each exporter has access to automatic retention of foreign exchange earnings for importation of inputs required for export production. The initial foreign exchange is provided by donors as well as funds made available from the seed capital fund. The SCRS identified one of the problems of export industries as being an inefficient use of foreign exchange allocated twice in a year by Bank of Tanzania and the NBC. The aim was to make a smaller amount of money more frequently available. The companies retained an amount of foreign exchange corresponding to the costs of imported inputs (i.e., the seed capital). As an incentive, the company also retained 35% of the surplus foreign exchange, the purpose being to provide the company with some foreign exchange to use in the local market. The retention percentage under the scheme differs from company to company depending on the actual dependence of the company on imported inputs. The exporters have to provide 100% cover in shillings value.

Commodity Exchange Programmes

Commodity exchange programmes exist where multinational corporations and foreign firms enter into agreements with Tanzanian exporters, mainly with non-traditional products, to market their products abroad and use the proceeds to procure inputs in the form of raw materials and spares for the export industries. Major items under this arrangement include printed fabrics, cotton yarn, grey cloth, cotton seed cake and sisal twine and rope. These programmes include the BET/SUKAB commodity exchange agreement, the INTER-IKEA-BET special trading agreement, and the CIBA GEIGY agreements

Special credit facilities

Other promotional efforts comprise an export credit guarantee and insurance scheme, the simplification and rationalization of export documentation (trade facilitation), transport facilities for speedier exports, special credit terms, priority in foreign exchange allocation to exporters and export targets.

Besides cash subsidies and other incentives, consideration has also been given to introduce a Market Development Fund which would provide foreign exchange to exporters, particularly on non-traditional products to supplement efforts in export development and promotion.

Another incentive for exporters is the presidential award scheme, introduced in 1981, and involving an award signed by the President of Tanzania to the best exporters as a recognition of their outstanding performance. The winners are supposed to receive preferential treatment from government agencies in terms of foreign exchange allocation, transport, local inputs and working capital. However, the effect of this scheme has been negligible.

Since February 1988, the government made a portion of foreign exchange available on a non-administrative basis for a selected positive list of priority import categories through an Open General Licensing (OGL) system. During the initial period of operation of the OGL, multilateral and bilateral resources were disbursed against a predetermined list of raw materials, spare parts, and some other items. Initially, access to the OGL was limited to US$100,000 for each import license and an aggregate amount of US$200,000 for each importer. The list has been expanded and US$5,000 is the minimum while the maximum is US$500,000. The OGL import license is valid for four months and advance cash deposits are required.

Results of policy changes

The macroeconomic policy changes and incentives introduced in Tanzania have had some positive effects in encouraging non-traditional exports. New products have been exported and part of the official foreign exchange has been re-directed to official channels. In trade with Kenya, exports valued at US$3.18 million in 1986. This figure increased to US$8.22 million in 1987 and by 1989 the figure was US$ 14.3 million (an increase of 350%). Imports to Kenya were US$38.4 million in 1986, US$31.95 million in 1987, US$38.81 million in 1988 and US$28.36 million in 1989. Overall there was a consistent decrease in imports.

Annual trade statistics also indicate increasing trade between Tanzania and Kenya, especially after the implementation of the government incentives. If we take 6 digit commodity classification we find that in 1975 there were 487 products imported from Kenya as against 201 products exported to Kenya. In 1988 975 products were imported from Kenya as against 130 exported to Kenya.[4]

The PTA and the other changes introduced are important in explaining the growing trade between Tanzania and Kenya. Another important explanation is the relatively positive relationship, both politically and culturally, especially after the re-opening of the border in 1983. The two countries have re-established amicable relations on the premise that the two countries can benefit more by cooperation than separation.

If we consider the East African Community era, pre-PTA era and post-PTA era, we can conclude that trade between Kenya and Tanzania was buoyant in the East African Community era and the post-PTA era as compared to pre-PTA period. This can be explained by the fact that when countries are in close cooperation they tend to give positive incentives to traders that are conducive to trade .

VIII Analysis of trade between Tanzania and Kenya

This section makes an approximation of the inter-industry adjustment caused by the PTA free trade agreement following Behar (1991) by estimating the comparative advantage of participating in it. By using this method we can see the probable effects of eliminating duty, and whether production is going to respond accordingly. Kenya is used in the analysis of Tanzania as it is the largest trading partner of Tanzania among PTA countries. Net exports from Tanzania to Kenya across different groups of commodities is analysed for the two years of 1975 and 1988. The net trade is expressed as a percentage of total bilateral trade. With this approach commodities having a positive sign would be those with which Tanzania has a revealed comparative advantage, while those with a negative sign indicates the products with which Kenya has a revealed comparative advantage.

Out of the 50 groups of commodities for 1975 Tanzania has a revealed comparative advantage with only 13. These include, fish preparations; sugar; processing of tobacco; coffee; tea etc.; oil seeds; crude rubber; textile fibres; fixed vegetable oils; animal and vegetable fats; fertilisers; leather manufacture; iron and steel; non ferrous metals; electrical machinery; and clothing and footwear. In 1988 we considered 53 groups and out of these Tanzania indicates a revealed comparative advantage of 16 commodities. These include meat preparations; fish and preparations; fruits and vegetables; coffee tea etc.; animal feeding preparations; hides and skins; oil seeds; natural rubber; wood; metalliferous ores and metal scrap; crude animal and vegetable materials; wood products; paper manufactures; cotton yarn; non-ferrous metals and electric machinery. The revealed comparative advantage based on trade in non-traditional products for Tanzania is mostly on fruits, vegetables, fish, oil seeds, wood and products, crude animal and vegetable materials, paper manufactures, animal feed and hides and skins. The results suggests that Kenya has a strong revealed comparative advantage when trading with Tanzania.

According to this analysis, a bilateral agreement which eliminates trade barriers in all products would induce significant pressures on Tanzania's manufacturing industries. This would be particularly true in the case where nominal tariffs faced by Kenyan exporters are relatively high and Kenya's comparative advantage strongest. An example of this is fruits and vegetables, dairy products and vegetable oils. The dismantling of all tariff barriers to trade between Tanzania and Kenya would eventually require considerable inter-industry adjustment in the two countries, but this adjustment would be more painful for Tanzania. Liberalization should therefore be phased in gradually to reduce adjustment costs.

Intra-Industry Trade between Tanzania and Kenya

Trade liberalisation which follows regional integration leads to both inter amd intra-industry trade. It is purpoted that intra-industry specialisation contribute to less cost of adjustment as compared to inter-industry trade. It is therefore important to observe intra-industry trade between Kenya and Tanzania. The definition of two-way or intra-industry trade is two countries simultaneously exporting and importing the same commodities. Intra-industry trade can occur because of product differentiations or vertical specialisation among other factors. The greater the probability of two-way trade: the more similar per capita incomes, the more similar factor prices and the cost of production, the lower and more similar the tariff and non-tariff barriers imposed by countries on differentiated products, the smaller transportation cost and the more differentiated the country's competing products.

Tanzania and Kenya fulfil many of the above criteria. In addition to those, trade liberalization through PTA is also likely to stimulate intra-industry trade through the dismantling of barriers to bilateral trade.

This section analyses the intra-industry trade between Tanzania and Kenya for the year 1975 and 1987. The formula used is:

$$B_i = \frac{(X_i - M_i) - | X_i - M_i |}{(X_i - M_i)} \times 100$$

Bi is the intra-industry trade, X*i* and M*i* refer to the value of exports of commodity i from Tanzania to Kenya and imports of the same commodity to Tanzania from Kenya.

The above measure varies between 0 and 100. We took a four-digit level of aggregation and in 1975 we had 193 products and in 1987 had 289 products. We used Figure 5 from SITC categories 5 - 8 and groups (032, 052, 055, 061, 081, 099, 11, 122, 243, 251, 251, 332, 411, 431) based on SITC revision of the classification of manufactured commodities. In the Appendix tables we have selected those groups which had intra-industry trade and omitted those with one-way trade. However, in this intra-industry trade most of the groups are *one-way*, that is Kenya to Tanzania. In 1975, Tanzania's exports to Kenya were 31.8% of Kenya's exports to Tanzania while in 1987 the figure was 24.1%. In addition, even within manufactures, Tanzania exports very little to Kenya. If we take one-way trade to indicate specialization, then in Tanzania-Kenya trade in 1975, in section 5 Tanzania had a specialization of 2 commodities while Kenya had 14, in section 6 Tanzania had a specialization of 6 commodities while Kenya had 41, in section 7 Tanzania had a specialization of 1 as compared to 21 of Kenya and in section 8 Tanzania had a specialization of 1 while Kenya had 11.

In 1987, in section 5 Tanzania had 0 commodities while Kenya had 41, in section 6

Tanzania had 1 commodity while Kenya had 101, in section 7 Tanzania had 1 commodity while Kenya had 48, and in section 8 Tanzania had 1 while Kenya had 28 (note in 1987 for section 8 we stopped at goup 8930 because of lack of data). These figures indicates that in manufactures Tanzania imports a considerable amount from Kenya while it exports very little to the country.

We further grouped the intra-industry trade data according to consumer, intermediate and capital goods. We used two years to observe whether a change had taken place. In general we found that in 1975 intra-industry trade on consumer good was on average 23.1%, intermediate goods was 17.5%, while capital goods was 38.6%. In 1987 intra-industry trade was on average 19.4% for consumer goods, 27.1% for intermediate goods and 47.3% for capital goods. Comparing 1975 figures with 1987 figures, we observe a slight change with an decrease in consumer, and increase in intermediate and capital goods.

For particular years, we took those groups which had intra-industry trade and ranked them in categories: high (50-100%) medium (20-50%) and low (below 20%). The results are shown in Appendix Tables A12. The tables indicate that in 1975 intra-industry trade between Tanzania and Kenya in consumer goods was not high. Out of 45 groups which registered intra-industry trade only 4 had a high percent figure, 9 had a medium figure and the rest were low. The group with a high figure is group 6951 only (hoes and machetes etc.) and in this group Tanzania exported more than it imported. For intermediate goods groups in 1975 the intra-industry trade indicates that out of 32 groups, 4 had high and 3 had medium trade figures. In the high figure group Tanzania exported less than it imported. The highest intra-industry trade was in tyres. For the capital goods group in 1975 the groups with intra-industry trade were fewer than other consumer and intermediate goods. Out of 5 groups, 2 had high intra-industry trade. In the two cases Tanzania exported more than it imported. The group with highest intra-industry trade was agricultural machinery and appliances for preparing and cultivating the soil.

For the year 1987, in the consumer goods groups we find a general decrease to 16 compared to 45 for 1975. Out of the 16 groups, 2 had high intra-industry trade, the highest being travel goods. Four products had medium intra-industry trade. For the intermediate group, 4 out of 16 groups had high intra-trade while 4 had medium trade figures. The highest group with intra-trade is that of tools, handles etc. In 1987 in the capital goods group, 6 groups had intra-industry trade. Out of these, 2 had high intra-trade while 2 had medium and 2 low. The group with highest intra-industry trade was bodies for motor vehicles.

In general, while trade between Tanzania and Kenya has increased, intra-industry trade has declined. Tanzania imports many more manufactured goods from Kenya than it exports. There is also a slight tendency of specialization, with Tanzania specialising in products which require less technology. These include products based on processed wood, processed waxes and molasses. Kenya, on the other hand, specialises in most of the manufactured proper goods (5 - 8).

One of the reasons for this is historical, as mentioned in section VII, Kenya has experienced a greater degree of industrialization, while Tanzania has pursued policies which did not encourage industrial products to compete effectively in export markets. These policies included tariff and non-tariff barriers, distorted factor prices leading to very high cost industries, capacity underutilization, an overvalued exchange rate, "soft budget" constraints on public sector industries and general export pessimism. If this trend is consistent with other PTA countries, then it is imperative for Tanzania to adjust its industries to be geared towards exporting. Comprehensive industrial reform is needed if Tanzania's manufactures are to effectively penetrate PTA markets. Otherwise, the issue of unequal gains could emerge again and threaten the sustainability of the PTA itself.

XI Summary and policy considerations

This study has evaluated and analysed the general trend of Tanzania's trade with PTA countries. Special attention has been paid to several issues: general trade between Tanzania and other PTA countries, historical relations and co-operation with Kenya, inter and intra-industry trade with Kenya. The analysis indicates that there is a general increase of trade between Tanzania and other PTA countries. Many new products are being traded effectively and new private individuals have entered the market. We found that trade increased, especially after 1988, with the reduction of tariff levels.

In the second part of the study special emphasis was placed on bilateral trade between Tanzania and Kenya. We can draw lessons from the past experience of the co-operation between Kenya and Tanzania for the improvement of the future PTA relationships. First, trade and cooperation between the two countries was relatively significant from the 1960s period to the mid-1970s. Second, because of the different levels of industrial development the benefit of trade tilted to Kenya which Tanzania disagreed with. The measures to redress this proved unsatisfactory and controls emerged. Third, the controls intensified in the 1970s, exacerbated by global economic difficulties. Added to other problems, these controls soured the trade relationship between the two countries. Fourth, the policy changes of 1980s by Tanzania have proved to be relatively effective in revamping the trade between the two countries. Importantly, trade between these countries is now more diversified with more non-traditional products traded.

While we cannot claim to have exhausted every aspect in the co-operation between Tanzania and Kenya, the study points to the difficulty of maintaining a common market when countries are at different levels of industrial development. It also shows the problem of integration when the benefits and costs to different countries are not well considered. The study indicates that it is difficult to maintain integration if restrictive policies are encouraged, thus pointing to a more market-based economy including more *laisser faire* policies. In other words, trade deficits can occur not because of the integration but rather because a country has little to offer, and thus it should concentrate its efforts towards expanding exports. This point is empahisised when the inter and intra-industry trade between Tanzania and Kenya is examined. This study has shown that in manufactures, the trade was mostly one way from Kenya to Tanzania and thus Tanzania should introduce comprehensive industrial reform to enable more of its manufactures to penetrate the PTA market.

Policy Considerations

From the study we suggest the following policy considerations:

1. The most important and immediate consideration which will improve the feasibility of the PTA is to develop and establish suitable infrastructure for cooperation. Coordinated development of such infrastructure needs urgent attention if the PTA is to achieve its objectives.

2. There is a need to create more appropriate instruments and arrangements for trade. While this point is currently being considered, and to some extent implemented, more emphasis is needed, especially to eliminate obstacles to trade such as non tariff and institutional barriers. Although revenue is important, it is sometimes considered in a short-term perspective and overrides other important criteria, such as efficiency in production through increased trade.

3. The PTA should concentrate on issues of trade, to persuade the respective governments to provide a conducive environment for freer trade in the region, rather than trying to solve all the problems of these countries. For example, in PTA documents one finds many objectives which are difficult to achieve given the PTA framework. In August 1990 the *Tanzanian Daily News* wrote that the PTA was to pursue monetary union. "Angered by low world prices for their commodities, [they] said today they will work to establish a regional monetary union to promote trade. A senior official of the 18 member PTA of East and Southern African states said the organisation's Council of Ministers would push for the wider use of a PTA currency. The use of common currency will increase trade between our countries significantly." PTA members would do better to co-ordinate ambitions that are achievable.

4. Monetary and payment reforms are needed, including changes in the production structures of many of the countries in the PTA region. In this respect there is also the need to investigate short-term distribution conflicts (equal distribution of benefits) as compared to medium-term considerations of allocative efficiency.

5. There is a further need for more thorough policy-oriented research based on the practical realities of Africa related to regional cooperation and the existence of complementary activities in African countries. There is still a need to analyse the problems of former trade links with colonial powers, for example technical assistance and other aid projects, and how they conflict with regional African interests.

Appendix A

Table A1: Tanzania: domestic exports to PTA countries (US$ million)

Country	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Burundi	10	12.20	7.22	4.58	2.22	2.52	1.71	0.95	1.77	2.67
Djibouti	-	-	-	-	-	-	-	-	-	0.035
Ethiopia	0.366	0.362	0.431	0.499	0	0.057	0.031	0.934	0.05	0.007
Kenya	0.122	0.362	1.185	0.718	5.04	1.55	3.18	8.37	11.10	14.43
Malawi	0.244	0.121	0.323	0.628	0.065	0.172	0.275	0.342	1.95	3.26
Mauritius	0.122	0.121	0	0	0	0.172	0.31	0.093	0.514	0.065
Rwanda	2.561	2.66	2.05	1.62	1.83	1.89	0.34	0.233	0.212	0.468
Somalia	2.56	0.604	1.078	0.090	0.262	0.172	1.010	0.233	0.242	0.435
Swaziland	0.122	0.362	0	0	0	0.057	0.031	0.031	0.020	0.006
Uganda	14.51	9.90	0.862	2.60	3.27	2.1	5.81	2.832	3.43	3.70
Zambia	2.32	1.93	1.19	1.44	1.05	0.92	0.95	1.73	3.96	4.34
Zimbabwe	0.122	0.242	0.108	0.269	0.131	0.172	0.428	0.545	1.52	1.62
Total	33.05	28.86	14.44	12.39	13.87	9.79	14.07	16.29	24.78	31.03

Source: Bank of Tanzani, *Economic and Operations Report*, year ended 30 June, 1989

Table A2: Tanzania: Direct Imports from PTA Countries (US$ million)

Country	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Burundi	0.12	0.12	0	0	0.98	0.29	0.37	4.05	0.22	0.27
Djibouti	-	-	-	-	0.065	0.057	0.21	-	-	-
Ethiopia	0	0	0	0	0.26	0.057	0.43	0.06	0.675	0.02
Kenya	9.73	12.44	12.39	8.71	8.83	21.98	38.41	31.95	38.8	26.88
Lesotho	-	0	-	-	0	0	0	0.02	0.02	0.01
Malawi	0.12	0	0	7.5	0.65	0.46	0.49	0.28	1.30	0.16
Mauritius	0	0	0	0.63	0.92	1.09	0.28	0.03	0.13	0.03
Rwanda	0	2.24	-	0	0	0.057	0.15	0.03	0.03	0.10
Somalia	0.24	0.85	2.69	0	0.13	0.114	0.21	0.06	0.01	0.10
Swaziland	0.12	0.12	0	0	0	0.114	0.18	0.76	1.21	1.48
Uganda	0.12	0.12	0	6.01	12.16	2.75	1.74	0.233	0.24	0.16
Zambia	4.26	3.41	6.03	4.85	8.89	6.70	8.99	6.61	9.70	7.77
Zimbabwe	0	0.85	13.04	8.71	2.22	5.78	2.87	3.35	4.502	3.75
Total	14.72	18.00	34.16	36.45	35.1	39.44	55.08	47.39	56.84	40.70

Source: Bank of Tanzania, *Economic and Operations Report,* year ended 30 June, 1989.

Table A3: Transactions settled through the PTA Clearing House 1986-1988 (US$)

Merchandise trade transaction

Year	Exports	Imports	Balance
1986	43,252	532,054	-488,802
1987	355,680	1,351,007	-995,327
1988	2,987,126	3,849,363	-862,237

Other transactions

	Receits	Payments	Balance
1986	-	-	-
1987	894,230	379,215	515,015
1988	9,657,481	2,990,450	6,667,031

Total Transaction

	Receipts	Payments	Balance
1986	43,252	532,054	-488,802
1987	1,249,910	1,730,222	-408,312
1988	12,644,607	6,839,813	5,804,794

Source: Compiled from Bank of Tanzania. Foreign Department records

Table A4: Tanzania's Domestic Exports by SITC category and Country of Destination, PTA Countries, 1987 (US$ million)

Country	0	1	2	3	4	5	6	7	8	9	sum
Burundi	0.06	-	0.02	-	0.02	-	0.78	0.05	0.03	-	0.96
Ethiopia	-	-	0.20	-	-	0.03	0.70	-	-	-	0.93
Kenya	1.76	-	0.76	2.83	-	-	1.93	1.01	0.03	0.05	8.37
Malawi	0.05	-	-	0.25	-	-	0.02	0.03	-	-	0.35
Mauritius	-	-	0.09	-	-	-	-	-	-	0	0.09
Zimbabwe	0.02	-	0.12	-	-	0	0.28	0.09	0.03	-	0.54
Rwanda	0.05	0.06	0.12	-	-	-	-	-	-	-	0.23
Seychelles	-	-	0	-	-	-	-	-	-	0	0
Somalia	0.14	-	0.06	-	-	0.03	0	-	-	-	0.23
Swaziland	0.03	-	-	-	-	-	-	-	-	0	0.03
Uganda	0.02	1.91	-	0.44	-	-	0.47	-	-	-	2.84
Zambia	0.08	-	0.02	-	-	-	1.6-	0.03	-	-	1.73
Botswana	0.23	-	0.06	-	-	-	0.14	-	-	-	0.43
Lesotho	-	-	-	-	-	-	-	-	-	-	-
Total	2.64	1.97	1.45	3.52	0.02	0.06	5.92	1.21	0.09	0.05	16.73

Note: In all the subsequent tables, 0 is food stuffs and live animals. 1 is beverages and tobacco. 2 is crude materials except fuels, 3 is mineral fuels, 4 is animal and vegetable oils, 5 is chemicals, 6 is manufactured goods by material, 7 is machinery, transport equipment, 8 is miscellaneous manufactures and 9 is other NEC.

Source: : Tanzania Bureau of Statistics: Foreign Trade Statistics 1988.

Table A5: Tanzania's Domestic Exports by SITC category and Country of Destination, PTA, Countries, 1988.

Country	0	1	2	3	4	5	6	7	8	9	Sum
Burundi	0.07	0.09	0.39	0.04	0	0	1.06	0.09	0.03	0	1.77
Ethiopia	0	0	0.05	0	0	0	0	0	0	0	0.05
Kenya	1.10	0.01	4.28	0.19	0.01	0	3.98	1.49	0.03	0.01	11.10
Malawi	0.07	0.02	0.05	1.20	0	0	0.61	0	0	0	1.95
Mauritius	0.04	0	0.10	0.24	0	0	0.12	0	0	0.01	0.51
Zimbabwe	0.07	0.13	0.34	0	0	0	0.95	0.02	0.01	0	1.52
Rwanda	0.04	0.01	0.11	0.02	0	0	0.02	0.01	0	0	0.21
Seychelles	0.04	-	0.03	0.37	0	0	0	0.03	-	-	0.47
Somalia	0.18	-	0.02	0	0	0	0.04	0	0	0	0.24
Swaziland	0.01	0	0.01	0	0	0	0	0	0	0	0.02
Uganda	1.37	0.74	0.01	0	0	0.01	0.96	0.35	0	0	3.44
Zambia	0.06	0	0.02	0	0.01	0.02	3.73	0.10	0.02	0	3.96
Botswana	0.22	0	0	0	0	0	0	0	0	0	0.22
Lesotho	0	0	0	0	0	0	0	0	0	0	
Total	3.27	1.0	5.42	2.06	0.02	0.03	11.47	2.09	0.09	0.02	25.46

Source: Tanzania Bureau of Statistics: .*Foreign Trade Statistics* 1988.

Table A6: Tanzania's Direct Imports by SITC category and Country of Origin. PTA, Countries, 1987

Country	0	1	2	3	4	5	6	7	8	9	sum
Burundi	0.06	0	0.05	0.03	0	0	0.59	3.36	0.02	0	4.11
Ethiopia	0	0	0	0	0	0	0	0.02	0	0	0.02
Kenya	3.49	0.14	0.33	5.56	0.06	4.82	7.58	6.99	2.99	0	31.96
Malawi	0.08	0	0	0.16	0	0	0	0.03	0.02	0	0.29
Mauritius	0	0	0	0	0	0.02	0.02	0	0	0	0.04
Zimbabwe	0.34	0.06	0.20	0	0	0.22	2.12	0.31	0.09	0	3.34
Rwanda	0	0	0	0	0	0	0	0.03	0	0	0.03
Seychelles	0	0	0	0	0	0	0	0	0	0	
Somalia	0	0	0	0	0	0.03	0.02	0.02	0	0	0.07
Swaziland	0	0	0.05	0	0	0.08	0.44	0.14	0.06	0	0.77
Uganda	0	0.02	0	0	0	0	0.12	0.08	0.02	0	0.24
Zambia	0.82	0	0	2.15	0	0.30	2.33	0.76	0.25	0	6.61
Botswana	0	0	0	0	0	0	0	0.64	0	0	0.64
Lesotho	0	0	0	0	0	0	0	0.02	0	0	0.02
Total	4.79	0.22	0.63	7.90	0.06	5.47	13.22	12.40	3.45	0	48.14

Source: See Table 5.

Table A7: Tanzania's Direct Imports by SITC category and by Country of Origin. PTA, Countries, 1988

Country	0	1	2	3	4	5	6	7	8	9	sum
Burundi	0	0.03	0	0	0	0	0.11	0.08	0	0	0.22
Ethiopia	0.56	0	0	0	0	0	0	0.11	0	0	0.67
Kenya	2.81	0.08	0.46	3.85	0.06	5.42	10.46	11.87	3.77	0	38.81
Malawi	0.87	0	0	0	0	0	0.23	0.17	0.03	0	1.30
Mauritius	0	0	0	0	0	0.01	0	0.11	0.01	0	0.13
Zimbabwe	0.17	0	0	0.01	0	0.24	1.30	2.70	0.09	0	4.50
Rwanda	0	0	0	0	0	0	0	0.03	0	0	0.03
Seychelles	0	0	0	0	0	0	0	0.03	0.01	0	0.04
Somalia	0.01	0	0	0	0	0	0	0	0	0	0.01
Swaziland	0	0	0	0	0	0.37	0.52	0.26	0.05	0	1.21
Uganda	0	0.01	0.01	0	0	0	0.01	0.12	0.09	0	0.24
Zambia	0.78	0	0.21	2.13	0	1.10	3.63	1.65	0.21	0	9.70
Botswana	0	0	0	0.73	0	0	0	0.16	0.01	0	0.90
Lesotho	0	0	0	0	0	0	0	0.02	0	0	0.02
Total	5.20	0.12	0.68	6.71	0.06	7.14	16.26	17.32	4.29	0	57.78

Source: See above Table.

Table A8A: Exports to Kenya by SITC category .(US $ millon)

YEAR	0	1	2	3	4	5	6	7	8	9	Total
1980	0.12	-	0	-	-	-	0	-	0	-	0.12
1981	-	-	-	-	-	-	0.36	-	-	-	0.36
1982	0.11	-	-	-	-	-	1.10	-	-	-	1.21
1983	0.18	-	-	-	-	-	0.54	-	-	-	0.72
1984	0.52	-	2.29	0.72	-	-	1.5	-	-	-	5.03
1985	0.63	-	0.46	-	-	-	0.40	0.06	-	-	1.55
1986	0.49	-	0.55	-	-	-	1.93	0.21	0	-	3.18
1987	1.76	-	0.76	2.83	-	-	1.93	1.01	0.031	0.05	8.37
1988	1.10	0.01	4.28	0.19	0.01	0	3.98	1.49	0.03	0.01	11.1
1989	0.36	0.01	9.36	-	001	0.08	2.75	1.66	0.08	0	14.3

Table A8B: Imports from Kenya by SITC category (US$ million)

YEAR	0	1	2	3	4	5	6	7	8	9	Total
1980	2.07	0	0.12	0.37	0	1.59	2.80	2.44	0.37	0	9.76
1981	0.12	0	0.24	3.26	0	2.29	4.23	1.21	0.97	0	12.32
1982	0.43	-	-	4.31	-	2.05	2.80	1.08	1.72	-	12.39
1983	3.23	-	0.18	0.45	0	1.80	1.97	0.63	0.45	-	8.71
1984	1.37	0.13	0.20	0.65	0	1.64	2.88	1.37	0.65	-	8.83
1985	0.34	0.06	0.69	6.24	0	4.01	5.04	3.66	1.95	02	1.98
1986	0.52	0.09	0.09	12.72	0.06	3.61	9.51	7.03	4.28	0.49	38.41
1987	3.49	0.14	0.33	5.56	0.06	4.82	7.58	6.99	2.99	-	31.95
1988	2.81	0.08	0.46	3.85	0.06	5.42	10.46	11.87	3.79	0	38.81
1989	1.03	0.01	0.34	2.11	0.05	4.11	12.42	5.85	2.43	0.01	28.36

Source: Tanzania Bureau of Statistics: Foreign Trade Statistics, 1988.

Table A9: Tanzania's Trade with Kenya (US$ million)

Years	Total Imports	Manufactured imports	Total Exports	Manufactured exports	Trade Deficit
1961	25.77	-	6.02	-	19.75
1962	28.99	-	7.84	-	21.15
1963	30.25	-	8.68	-	21.57
1964	37.25	16.20	11.51	4.37	25.74
1965	39.44	14.93	12.80	4.30	26.64
1966	37.20	15.81	10.66	4.30	26.54
1967	31.88	11.30	9.22	3.32	22.66
1968	36.61	16.88	10.34	2.77	26.27
1969	35.99	16.60	11.26	3.19	24.73
1970	41.32	18.38	16.65	4.09	24.66
1971	41.30	17.13	17.31	9.27	23.99
1972	45.62	15.83	16.48	6.27	29.13
1973	48.02	14.42	21.72	6.00	26.30
1974	58.67	14.94	29.22	7.31	29.45
1975	55.09	12.20	22.94	4.68	32.14
1976	79.82	26.70	29.59	12.68	50.23
1977	21.39	-	3.18	-	18.20
1978	3.48	-	0.11	-	3.36
1979	9.99	-	0.22	-	9.77
1980	9.76	7.20	0.12	-	9.63
1981	12.32	8.70	0.36	0.36	11.96
1982	12.39	7.65	1.19	1.08	11.21
1983	8.71	4.85	0.72	0.54	7.99
1984	8.83	6.54	5.04	1.50	3.79
1985	21.98	14.65	1.55	0.46	20.44
1986	38.41	24.92	3.18	2.14	35.23
1987	31.95	22.38	8.37	3.02	23.58
1988	38.81	31.54	11.10	5.51	27.71

Table A10: Tanzania's trade Kenya -Indicator of Comparative Advantage and Nominal Tariffs, 1975 (Tshs)

Group	NAME	Duty Kenya	Duty Tanzania	Duty Differentials %	Tanzania import	Kenya import	Ratio.
001	Live animals	-	-	-	7625323	580074	-85.86
01	Meat&preparation.	46.5	2.3	-44.2	10054711	3344941	-50.07
02	Dairy products	.45	15.7	15.3	13397997	-	-100
03	Fish&preparation.	29.8	30.4	.52	965	1988326	99.90
04	Cereals&preparations.	39.8	6.4	-33.4	23921388	-	-100
05	Fruits&vegetables.	17.5	38.5	21.0	11037947	7953292	-16.24
06	Sugar&preparation.	53.0	52.5	-0.5	273832	21340996	97.47
07	Coffee,tea etc	41.0	46.2	5.2	243445	4444992	89.62
08	Feeding stuff	6.1	10.2	4.1	1330651	1084543	-10.19
09	Misc. Food pre.	10.5	14.7	4.2	5832421	13376	-99.54
11	Beverages	143.4	137.4	-6.1	2156733	-	-100
12	Tobacco&manufacture.	177.8	12.0	-165.8	600	38820154	99.997
22	Oil-seeds etc.				-	1962468	100
23	Crude rubber	15.13	.44	-14.7	-	1100	100
24	Wood lumber				4011337	585219.8	-74.54
26	Textile fibres	8.4	18.9	-10.6	51822	17182329	99.4
27	Crude fertiliser etc	6.5	11.0	4.5	799991	43707.4	-89.64
28	Metalliferous ores	9.7	3.4	-6.3	196119	8250	-91.93
29	Crude animal&vege M	12.7	20.5	7.8	2516895	668508.5	-58.03
33	Petroleum&products.	30.53	35.7	7.2	1.06E+08	3161.4	-99.994
34	Gas natural&M	14.5	11.4	-3.1	3331	-	-100
42	Fixed vegetable.oil	1.1	15.6	14.5	358783	1469521	60.75
43	Animal&vegetables fat	5.7	5.5	-0.13	26289	417890	88.16
51	Chemicals	5.9	5.3	-0.6	3231718	808390	59.98
52	Mineral&coal material	4.7	3.5	-1.2	319345	-	-100
53	Dyeing etc.				3611618	73961.8	-95.99
54	Medicinal&pharmac.	20.9	16.2	-4.7	31810625	69415.5	-99.56
55	Essential	52.4	37.1	-15.3	12266593	1795345	-74.47
56	Fertiliser manufactures	0.012	5.2	5.2		2065393	100
58	Plastic material	10.3	7.5	-2.8	3029005	209003.3	-87.09
59	Chemical materials.	6.4	6.5	0.06	8183693	5268160	-21.67
61	Leather manufactures	28.4	18.4	-10.0	921570	1182782	12.41
62	Rubber manufactures.	14.2	9.0	-5.2	5905048	4716583	-11.19
63	Wood Manufactures.	27.5	15.6	-11.9	6591537	1692710	-59.13
64	Paper manufactures.	11.7	12.1	0.46	34506043	481648.2	-97.25
65	Textiles&fabric.	41.2	34.2	-7.0	15802154	11647066	-15.14
66	Non-metallic.minerals.	19.3	15.2	-3.6	18414132	32474.2	-99.65
67	Iron&Steel	9.8	7.5	-2.3	5880559	11567789	32.59
68	Non-Ferrous Metals	5.9	4.8	-1.1	776309	11518158	87.37
69	Manufacture. of Metal	15.4	8.0	-7.4	22278619	730371.4	-93.65
71	Machinery non electric	7.4	9.6	2.2	3535775	129429.3	-92.94
72	Electric.Machines	15.6	11.7	-3.9	5390260	14434563	45.62
73	Transport Equipment	33.9	18.3	-15.6	6697260	-	-100
81	Sanitary etc.	25.7	23.4	-2.3	26416	-	-100
82	Furniture	38.9	24.6	-14.3	1004487	440523.6	39.03
83	Travel goods etc.	49.9	49.9	-0.0014	55500	3375.9	88.53

Table A10 cont.........

84	Clothing	48.0	44.8	-3.2	540903	8341864	87.82
85	Footwear	39.5	38.5	-1.0	32803	120032	57.07
86	Professional equip.	22.2	15.2	-7.1	13075	-	-100
89	Miscellaneous	28.2	24.7	-3.5	33019583	6013536	-69.19
Total					4.13E+08	1.85E+08	-38.11

Table A11: Tanzania's Imports from and Exports to Kenya, 1988,. (Tshs)

Group	Name	Tanzania Imports	Kenya Imports	Ratio*
001	Live animals	7156976	-	-100.00
01	Meat&preparation	30557	62773.7	34.52
02	Dairy Products.& Eggs	1543325	-	-100.00
03	Fish&preparation.	478928	58681140	98.38
04	Cereal&preparation.	1.79E+08	-	-100.00
05	Fruits&Vegetables.	693337	1927580	47.09
06	Sugar&products	21805042	3268976	-73.93
07	Coffee,tea,etc	567949	2795318	66.23
08	Feeding feed animal	2180819	46465968	91.03
09	Misc.food preparation.	50004244	-	-100.00
11	Beverages	4757422	1465584	-52.90
12	Tobacco&manufacture.	71000	-	-100.00
21	Hides&skins	32241636	-	100.00
22	Oil seeds etc.	12802	25219362	99.90
23	Natural rubber	29.7	-	100.00
24	Wood etc.	27110786	-	100.00
25	Pulp&waste	11694359	-	-100.00
26	Textiles fibre	4016760	1794613	-38.24
27	Crude fert.&mt	14447796	28105	-99.61
28	MetalliferousM	23534	1525135	96.96
29	Crude Ani.&veg.mate	1709768	59780091	94.44
33	Petroleum&products	3.32E+08	-	-100.00
42	Fixed vege.oil	4876889	-	-100.00
43	Animal&vege.fats	169824	11650.1	-87.16
51	Chemicals	1.59E+08	-	-100.00
53	Dyeing	21181648	-	-100.00
54	Medicinal Products	1.97E+08	-	-100.00
55	Essential oils	5980961	-	-100.00
56	Fertiliser	445189	-	-100.00
57	Explosives	985692	-	-100.00
58	Plastic	8910784	-	-100.00
59	Chemicals	98077057	-	-100.00
61	Leather	194245	4400	-95.57
62	Rubber manufactures.	30993893	320729.2	-97.95

Table A11 cont ....

63	Wood	3926522	15346516	59.25
64	Paper manufactures.	90124742	2.91E+08	52.65
65	otton yarn	30816049	66601788	36.73
66	Non-metallic	1.48E+08	-	-100.00
67	Iron&Steel	1.96E+08	73968188	-45.15
68	Non-Ferrous	12942213	26826697	34.91
69	Manufactures of metals	3.14E+08	210509.2	-99.87
71	Non Electrical Machinery	2.16E+08	1090480	-99.00
72	Electrical machinery	1.53E+08	1.61E+08	2.70
73	Transport equipment	6.69E+08	3960	-99.99
81	Sanitary	4756532	-	-100
82	Furniture	43097802	688443.8	-96.86
83	Travel goods	413523	-	-100
84	Clothing	1697219	1552255	-4.46
85	Footwear	1313852	-	-100
86	Professional	12444329	182144.6	-97.11
89	Miscellaneous manufactures	1.85E+08	1620835	-98.26
93	Special transactions.	22105	-	-100
94	not classified.	2500	-	-100
Total	3.24E+09	9.03E+08	-	-56.4244

Note: Corrected Exports by 10%,* (Tanzania's Imports-Kenya's Imports)/(Kenya + Tanzania Imports)x100

Table A12A: Intra-Industry trade in Consumer Goods, 1975 (Tshs)

Group	Tanzania Imports from Kenya	Tanzania Exports to Kenya *	Intra-Industry Trade %	Remarks
0611	6358	21071428	0.06	Low
0616	240	269567.1	0.18	Low
0812	574	313921.3	0.37	Low
0813	160	187346.5	0.17	Low
o819	978318	583275	74.70	High
5541	1061301	147576	24.42	Medium
5542	115	54347.7	0.42	Low
5543	369907	1190327	47.42	Medium
6514	1451417	12668.7	1.73	Low
6522	200066	8221897	4.75	Low
6535	286697	135939.1	64.33	High
6556	23031	1891450	2.41	Low
6558	906628	52752.7	11.00	Low
6566	420	319297	0.26	Low
6569	219087	960305.5	37.15	Medium

Table A12A cont.......

6578	10319	383.9	7.17	Low
6611	87827	110	0.25	Low
6666	4907	17397.6	44.00	Medium
6732	2007824	302500	26.19	Medium
6739	796706	66880	15.49	Low
6783	777643	11198409	12.99	Low
6842	645035	11518158	10.61	Low
6922	5638374	8074	0.29	Low
6951	8008	11715	81.20	High
6952	274102	5500	3.93	Low
6971	41120	176737	37.75	Medium
6972	403143	206745	67.80	High
6981	355610	1519.1	0.85	Low
6983	183963	3080	3.29	Low
6986	1000	40920	4.77	Low
6988	3707169	53165.2	2.83	Low
6989	2776587	22435.6	1.60	Low
8210	1004487	440523.6	60.97	High
8310	55500	3375.9	11.47	Low
8411	142304	8301769	3.371	Low
8414	300433	40095	23.55	Medium
8510	32803	120032	42.93	Medium
8911	5950	3702123	0.32	Low
8921	18041763	393846.2	4.27	Low
8922	4422255	225138.1	9.69	Low
8929	887096	25656.4	5.62	Low
8930	5603896	1312846	37.96	Medium
8951	59919	1758.9	5.70	Low
8992	651722	1289.2	0.39	Low
8993	272675	246881.8	95.04	High

Note: *Adjusted by 10% factor for comparison with imports since exports are reported fob while Imports are c.i.f.

Table A. 12B: Intra-Industry trade in Intermediate Goods 1975

Group	Tanzania Imports from Kenya	Tanzania Exports to Kenya	Intra-Industry Trade %	Remarks
2432	2474144	17723.2	1.42	Low
2433	854627	563730.2	79.49	High
3321	7552385	3161.4	0.08	Low
4314	26289	417890	11.84	Low
5133	1341697	715440	69.56	High
5149	21795	92950	37.99	Medium
5333	1260425	55938.3	8.50	Low
5414	3185130	25690.5	1.60	Low
5417	20977682	43725	0.42	Low
5530	1349542	333683.9	39.65	Medium
5812	3028355	209003.3	12.91	Low
5992	6279902	2769553	61.21	High
5995	86240	2442380	6.82	Low
5999	1727551	56227.6	6.30	Low
6114	69197	972283.4	13.29	Low
6119	9852	163717.4	11.35	Low
6121	569278	792	0.28	Low
6123	549421	5591.3	2.01	Low
6129	28600	96496.4	45.72	Medium
6210	1185800	26519.9	4.38	Low
6291	4715572	4589691	98.65	High
6299	3676	100372.8	7.07	Low
6312	3325092	58090.8	87.40	High
6314	1140	515331.3	0.44	Low
6321	3803892	345176.7	16.64	Low
6324	2390958	15568.3	1.29	Low
6327	7700	484672.1	3.13	Low
6328	55338	616	2.20	Low
6421	27473139	5216.2	0.04	Low
6422	1915843	2011.9	0.21	Low
6423	739662	2333.1	0.63	Low
6429	620647	27247	3.31	Low

Note: *Adjusted by 10% factor for comparison with imports since exports are reported fob while Imports are c.i.f.

Table A12C: Intra-Industry trade in Capital Goods, 1975 (Tshs)

Group	Tanzania Import from Kenya	Tanzania Export to Kenya*	Intra-Industry Trade %	Remarks
7121	32000	70548.5	62.41	High
7182	15276	34536.7	61.33	High
7183	138923	13081.2	17.21	Low
7199	1130752	11262.9	1.972	Low
7291	318222	5175729	11.58	Low

Note: *Adjusted by 10% factor for comparison with imports since exports are reported fob while Imports are c.i.f.

Table A12D: Intra-Industry trade in Consumer Goods 1987

Group	Tanzania Import from Kenya	Tanzania Export to Kenya*	Intra-Industry Trade %	Remarks
0619	1520208		1.29	Low
0990	34165507	1650	0.01	Low
6513	800	314369	0.51	Low
6521	4712	8637930	0.11	Low
6522	392687	3092100	22.54	Medium
6551	640875	5500	1.70	Low
6556	1365911	9231823	25.78	Medium
6561	1242593	47930.3	7.43	Low
6575	222421	57898.5	41.31	Medium
6576	1164	7810	25.94	medium
8310	82373	73139	94.06	High
8411	965010	3300	0.68	Low
8510	2064646	148099.6	13.39	Low
8918	107017	3254.9	5.90	Low
8921	56325186	306733.9	1.08	Low
8922	666482	1293848	68.00	High

Note: *Adjusted by 10% factor for comparison with imports since exports are reported fob while Imports are c.i.f.

Table A12E: Intra-Industry Trade in Intermediate Goods, 1987 (Tshs)

Group	Tanzania Import from Kenya	Tanzania Export to Kenya*	Intra-Industry Trade %	Remarks
3324	2124649	199971971	2.10	Low
5132	53990638	1100	0.004	Low
6129	21455	11858	71.19	High
6312	1526439	1023000	80.25	High
6314	41300	2962369	2.75	Low
6324	6134326	1625611	41.90	Medium
6327	20393	650690.7	6.08	Low
6328	36741	37942.3	98.39	High
6412	1751944	494050.7	43.99	Medium
6415	5669465	38384584	25.74	Medium
6416	18998	7139382	0.53	Low
6429	8084355	148614.4	3.61	Low
6842	30674777	62762765	65.66	High
6942	3938353	18506.4	0.94	Low
6972	1632008	431185.7	41.80	Medium
6981	2391015	34028.5	2.81	Low

Note: *Adjusted by 10% factor for comparison with imports since exports are reported fob while Imports are c.i.f.

Table A12F: Intra-Industry Trade in Capital Goods, 1987 (tshs)

Group	Tanzania Import from Kenya	Tanzania Export to Kenya*	Intra-Industry Trade %	Remarks
7192	9454798	3140674	49.87	Medium
7221	6543927	5028324	86.90	High
7222	4932602	37895	1.52	Low
7250	12118824	3382068	43.64	Medium
7291	2010040	80403.4	7.69	Low
7328	23739068	26557630	94.40	High

Note: *Adjusted by 10% factor for comparison with imports since exports are reported fob while Imports are c.i.f.

Table A13: Tanzania's Revenue Loss as a result of duty Removal and PTA Imports as a ratio of Dutiable Imports -989.

Section	Loss of revenue in % of Imports of the Section	PTA imports/Total dutiable Imports %
Food and live animals(0-04)	18.50	4.84
Fruits&vegetables(05-099)	13.70	12.40
Beverages(11)	10.30	12.04
Tobacco(12)	19.80	18.40
Crude materials(2)	2.32	3.92
Mineral Fuels(3)	7.60	1.90
Animal&Vegetable fuels(4)	0.66	0.62
Chemicals(5)	7.44	4.63
Dyeing, tanning etc.(53)	6.74	6.90
Medicinal&Pharmac.(54)	4.85	6.06
Essential oils etc.(55)	17.14	24.48
Explosives etc.(57)	29.50	25.64
Plastic Materials(58)	3.10	4.04
Chemical Materials(59)	24.20	26.30
Leather and products(61)	7.70	5.81
Rubber Manufactures(62)	1.00	1.10
Wood Manufactures(63)	8.90	7.20
Paper Manufactures(64)	12.07	9.50
Textiles Products(65)	13.10	13.40
Non-metallic mineral(66)	21.10	41.40
Iron and Steel(67)	8.34	12.30
Non-ferrous metals(68)	3.10	42.70
Manufactures of metal(69)	9.83	6.38
Machinery non electric(71)	2.30	2.05
Electric Machinery(72)	1.60	1.20
Transport Equipment(73)	2.02	1.95
Sanitary Products(81)	2.44	6.60
Furniture(82)	8.30	4.70
Travel goods(83)	0.1338	0.1344
Clothing(84)	6.12	6.47
Footwear(85)	6.78	19.20
Professional. Instruments(86)	1.94	1.63
Misc. Manufactures(89)	11.80	8.88
Special Transactions(93)	1.45	1.45
Animals, N.E.S.(94)	100.00	100.00
Arms(95)	15.10	17.10

Source: Calculated using data for annual trade for the year 1989 from customs, Tanzania, 1989.

Appendix B

Products exported to PTA and non-PTA markets.

1985

Cordage cable, rope, twine of sisal
Custacea & Mollasses, fresh, chilled, frozen salted or dried
Wattle extract
Fish fresh, chilled or frozen
Batteries and Cells
Cotton Cake
Citrus fruits Fresh or dried
Khangas

1986

Fish fresh, chilled or frozen
Fish, salted dried or smoked
Khangas
Cigarettes
Cement
Cordage, cable rope twine of sisal
Custacea. molluscs fresh, chilled frozen salted or dried

1987

Fish fresh, chilled or frozen
Custacea Molluscs fresh chilled or frozen
Cordage cable, rope, twine of sisal
Fish salted dried or smoked
Citrus Fruit fresh or dried
Cement
Cotton Yarn
Cotton Waste not carded or combed

1988

Wattle Extract
Cotton Yarn (unbleached)
Custacea and Molluscs fresh, chilled or frozen
Cotton Waste not carded or combed
Cordage cable, rope, twine of Sisal
Khanga
Cement
Citrus fruits
Fish fresh chilled or frozen
Fish salted dried or smoked
Kraft Paper

1989

Cordage cable, rope, twine of sisal
Cement
Custacea and Molluscs fresh, chilled frozen salted or dried
Cotton Waste not carded or combed
Fish salted dried or smoked
Fish fresh, chilled or frozen

Appendix C : The PTA Treaty and Modus Operandi

The PTA Treaty and Modus Operandi

The key objective of the PTA Treaty is to promote trade among PTA members by removing trade barriers. The member States agreed to the gradual reduction and eventual elimination of customs duties and non-tariff barriers to trade conducted among themselves; and also to the gradual evolution of a common external tariff in respect of all goods imported from third countries with a view to the eventual establishment of a common market among themselves.

The PTA has thus been established with a view to promoting self-reliant and self-sustaining economic growth and development. The ultimate target is to remove all duties on PTA goods by the year 2000. The phasing out of duties commenced in October 1988 by reducing the effective rate (using PTA concessions) by 10% every two years, reaching 50 %reduction by the year 1996.

By the year 1998 effective current PTA rates should be reduced by 70 % and by the year 2000 duties on PTA goods should be completely abolished, provided the products satisfy the rules of origin criteria. Together with tariff reductions, member states have also agreed not to impose advance import deposits and tax on foreign exchange transactions in respect of intra-PTA trade, to provide meaningful quotas for prohibited products; to establish PTA sub-quotas within global quota limits for common list products and to earmark a proportion of their foreign exchange reserves for financing intra-PTA trade.

Goods that qualify for PTA concessions must originate from PTA member countries. In order to qualify for this status, the supplier must have a minimum local equity participation of 30% on the basis of agreed three-tier system. The level of concessions will vary following the extent of national equity participation.

List of eligible commodities and Rules of origin.

The published list of eligible commodities to be traded within the PTA shows that there will be substantial reductions in tariffs and other charges on all categories of goods traded. Eligible commodities are classified into six broad groups.

Group I deals with food items (excluding luxury goods), and comprises about 55 commodities, which are all to enjoy a reduction in tariffs and other charges equivalent to 30%. Commodities in this group include live animals and poultry, meat, fish, milk, butter, eggs, vegetables, honey, fruits, coffee, tea, rice, maize, flour, sorghum, animal feeds, and sausages etc.

Group II (A) consists of agricultural raw materials consisting of about 16 commodities, which are to have a reduction in tariffs and other charges equivalent to 50%. Commodities in this category include oil seeds, gum Arabica, vegetable materials such as cereal straw, unmanufactured tobacco, raw hides and skins, leather, wool, cotton, jute and other fibres.

Group II (B) covers non-agricultural raw materials, comprising about 15 commodities and their tariffs and other charges are to be reduced by 60%. The commodities in this group are common salt, sulphur, bentonite clay, marble, gypsum, limestone flux, quicklime, copper concentrates and coal etc.

Intermediate goods in group III are expected to have tariff reductions equivalent to 65%. This group comprises 113 items including pyrethrum extracts, vegetable waxes, soda ash, asbestos, tanning extracts, natural resins, paper and paperboards, yarn of man-made fibres, twine, cordage and ropes, iron and steel wire, copper rods and cables, aluminium, and lead.

Durable consumer goods in group IV A of about 29 items are scheduled to have a reduction of 40%. Items here include sinks and wash basins, stoves not electrically operated, locks and padlocks, refrigerators and deep freezers, and some parts and accessories of motor vehicles.

Group IV (B) consists of non-durable consumer goods (excluding commodities falling under groups IV (C)) and IV (D)) which are to enjoy a 35% reduction of tariffs and other charges. This category comprises 98 items such as inks, soaps, polishes and creams, rubber tires and tubes for motor vehicles and bicycles, sacks and bags, barbed iron or steel wire, tableware, hoes, batteries, fountain pens, pencils, spectacles, and smoking pipes.

Reductions in group IV (C), which contains highly competing consumer goods of about 46 items, will be equivalent to 30%. Items included in this category are fabrics of cotton, outer and undergarments, ties, gloves, blankets, linen and various forms of footwear.

Group IV (D) consists of consumer goods of importance to economic development (other than capital goods) of about 20 items and these enjoy a reduction of tariffs and other charges equivalent to 70%. Examples of items in this category are: cement, petroleum oils, pharmaceutical goods, mineral and chemical fertilizers, insecticides and fungicides.

Group V consists of Capital goods (including transport equipment) of about 36 items but will have a reduction in tariffs and other charges of 70%. Items in this category include railway and tramway rolling stock, parts of railway and tramway, locomotives and rolling stock, and motor vehicles.

Group VI, luxury goods, consists of about 16 items and will receive the smallest reduction of only 10%. Items in this category are sugar, confectionery, chocolate confectionery, wines, alcoholic beverages, cigarettes, essential oils, flavouring materials and perfumery.

We should note that the commodities on the common list are continually being added to from time to time.

Non-tariff Barriers

To deal with the problems of quantitative restrictions, the PTA Treaty stipulates that existing quotas and other non-tariff barriers shall be relaxed and removed for the goods in the common list.

Non-tariff barriers	**PTA concessions**
a) Quantitative restrictions	Preferential treatment in allocation of quotas
b) Export and import licensing	Preferential treatment in issuing of licences
c) Foreign exchange licensing	Preferential treatment in issuing of licenses
d) Stipulation of import sources	Preferential treatment
e) Prohibition of temporary prohibition of imports	Exemption where possible

f) Advance import deposits	Preferential treatment
g) Conditional permission for imports	Exempted
h) Special charges for acquiring foreign exchange.	Preferential treatment

Only goods in the common list enjoy preferential treatment in the PTA.

The procedure used for PTA concession

An exporter from a PTA country obtains a certificate of origin from an authorised institution in a member country as a basis for application of concession. The authorised institution checks on equity participation and issues the relevant certificate for the level of concession. Importers use the certificate of origin to get duty concessions. The exporter's integrity in providing full information on equity participation is crucial in order to arrive at the appropriate concession rates. The authorised national institution should also have the requisite calibre to analyse the information provided by the exporter to be able to detect any misinformation

Export/Import Procedures under PTA as applied in Tanzania

Trade with a PTA customer is not any different from the normal export/import business except that invoices and letters of credit have to be quoted in local currencies.

Exporting

An exporter wishing to export under PTA system should invoice goods in local currency (i.e in Tshs) or in the third currency, i.e importer's currency. The exporter should then apply for export licence, and fill in certificate of origin which can be obtained from the Board of External Trade (BET). The foreign importer pays his bank in his own currency. The local bank pays the exporter in Tshs, or according to instructions from the importer's bank on the basis of the terms agreed between exporter and importer.

Importing

The reverse of the export procedure takes place i.e., the importer applies for import licence and open letters of credit in favour of the exporter in exporter's currency. The importer then pays his bank in Tshs while the foreign exporter is paid by his bank in his own currency.

Rules of origin

Goods shall be accepted as originating in a member state in order to receive preferential treatment, if they fulfil two criteria.

First, such goods must have been produced in the member state by enterprises that are subject to management by a majority of nationals and have at least 51% equity holding by nationals of the member states or a government of the member states or institutions, agencies, enterprises or corporations of such government or governments.

Second, goods will be regarded as originating in a member country if in addition to fulfilling the first criterion above, they satisfy one of the following conditions.

- i) They have been wholly produced in the member states;
- ii) They have been produced in the member states and the c.i.f. value of materials imported from outside the member states in the undetermined origin that have been used at any stage in the production of the goods does not exceed 60% of the total cost of materials used in the production of the goods;
- iii) If they have been produced in the member states from materials imported from outside the member states or of undetermined origin, the value added resulting from the process of production accounts for at least 45% of the ex-factory cost.
- IV) Subject to certain exceptions as may be determined by the council.

The PTA expanded the commodity list to about 7,000 in 1990 compared to 200 in 1984.

Notes

1. see for example B. Södersten B., 1980.

2. See for example Ndlela (1991)

3. Maliyamkono et al 1990.

4. Annual Trade Statistics.

5. Speech by President Nyerere of Tanzania to East African Legislative Assembly, The Standard, Dar es Salaam, a February, 1972.

6. Frank I. 1978 pp. 20-23.

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